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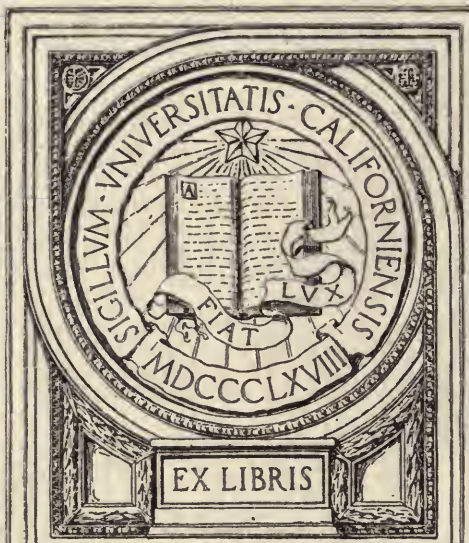
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Metropolitan System of Bookkeeping

Metropolitan System of Bookkeeping

EMBRACING

THEORY AND PRACTICE OF BOOKKEEPING AND ACCOUNTING FOR
HIGH SCHOOLS, PAROCHIAL SCHOOLS, ACADEMIES AND
ALL OTHER SCHOOLS TEACHING THE SUBJECT

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COMPLETE

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PREFACE

In preparing this text on bookkeeping, the author has had the gradual, progressive development of the subject in mind.

A reaction is taking place in the teaching of bookkeeping in the best schools. There is no good reason why the teaching of bookkeeping, especially in the beginning course, should differ so much from the teaching of other subjects. In other subjects, we do not attempt to teach the pupil at once all the operations necessary to give him a complete understanding of the subject. We teach him an operation or step at a time.

The author believes that teachers and pupils alike will welcome a text in bookkeeping that takes up one operation at a time, or a new subject, and explains it before undertaking another. Each subject is well illustrated and sufficient exercises are given to enable the pupil to learn one step before studying the next. The development and illustration of a new subject in practically every chapter is a feature that should appeal to every teacher of the subject.

The expression, "learn by doing," has come to mean little more than routine, mechanical work without much thought. Skill in the mechanical work must be developed by a sufficient number of exercises and sets, but that is simply one side of the study of bookkeeping.

The author believes that if bookkeeping is to maintain its place as a study in the secondary school curriculum on a par with other subjects, the thought side must be emphasized. It must not be simply an incidental matter. Bookkeeping, as a study, should not depend on its practical value alone for its standing. To develop the thought side of bookkeeping, frequent class recitations are necessary. The arrangement of the text is especially adapted for this purpose.

In beginning with the study of cash, the author believes he is beginning with a subject in which the pupil is naturally interested. The average pupil studying bookkeeping knows little about business, but he does know the difference between cash received and cash paid out.

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Whatever difficulty the average pupil has had in the use of the cash book has been because he has been taught entries that he must unlearn when he begins the use of the cash book.

The author makes no apology for minimizing the journal as a book of entry. To spend weeks and months learning how to make entries in the journal that are rarely entered in it in modern systems of accounts, is wasted time. Sufficient exercises and transactions are given in the use of the journal to give an understanding of the principles of debit and credit.

In developing the subject, the author has constantly kept in mind the principles of accounting. But in doing this he has also recognized the fact that, while the principles of bookkeeping must conform with those of accounting, they must be gradually unfolded. To plunge the pupil into the details of the most advanced accounting methods and practice in his beginning work, is to give him something entirely beyond his mental grasp.

The author has also recognized the fact that the very best accountants differ in practice in reference to certain subjects and in the use of certain forms. The author has taken advantage of this fact in the advanced work by illustrating different methods of treating some of these points. No catch problems nor transactions have been given. If a subject is too difficult to be explained according to the principles of accounting, it is omitted until the pupil can grasp it, rather than to present it in an incorrect way.

In the preparation of the text and of the business papers, business men, accountants, and teachers have rendered valuable assistance. To all of these, the author is greatly indebted.

THE AUTHOR.

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PART I

INTRODUCTION

Every business man should keep some record of his transactions. Even if the transactions are few in number, it is not safe to trust to memory.

These records may have to be examined by others. They may have to be taken into court in case of a dispute between the parties. For these reasons, the records must be kept in such a way that they will be understood by others.

Bookkeepers and accountants have adopted certain forms of records and have made the use of certain books so general that they must be studied by every one that wishes to become familiar with bookkeeping methods and business practice. Other forms, record books, and business methods differ in different lines of business. These may be studied in the more advanced work or in actual business. The fundamental principles of bookkeeping and accounting are the same no matter how complicated the books and records may be.

Bookkeeping is the art of making a systematic record of business transactions and of properly classifying these records so as to show the true condition of the business.

The pupil will find that in order to be successful in his work in bookkeeping he must be a student of business methods. He must learn many things about business practice in addition to the making of the proper records. A systematic record of a transaction is an entry.

Double entry bookkeeping is the system most commonly used in business. Double entry keeps records with persons, with property, and with all items of income and expense.

In the pupil's study of double entry bookkeeping, he must give careful attention to certain features of the bookkeeping work. He must learn to master details. Bookkeeping records must be in accordance with the forms in general use. Many things must be done in a particular way even to the smallest details.

The pupil must be accurate. Mathematical accuracy is of the

greatest importance. But accuracy in bookkeeping includes much more than that. It includes the ability to see a record or form exactly as it is illustrated and to correctly use it in his practice work. It includes the ability to follow instructions exactly. The formation of these habits will be of immense value to every one whether he contemplates a business career or not.

The work must be carefully and neatly done. The penmanship must be the best the pupil is capable of doing. To cultivate habits of neatness and carefulness, every page of the written work should be free from blots, erasures, marked-over words or figures, and anything else that would mar the appearance of the work.

These mechanical features of the bookkeeping work must be learned and learned thoroughly. They must become almost automatic. Frequent exercises and reviews will give the pupil skill in entering the transactions, according to the proper form, accurately and neatly.

But that is only one side of the pupil's study of bookkeeping. He must learn to think. He must learn to classify and to analyze. He must be more than an imitator of forms. He must not only know how to do a thing but also why it is done.

The work is elastic in character. In part of the work the business papers may be used or not. Some of the transactions called exercises may be omitted at the discretion of the teacher. The *sets* represent a progressive development of the subject. None should be omitted.

The exercises should be worked out on loose sheets of paper. The beginning sets should be worked out on loose sheets and afterwards entered in the blank books. The rest of the sets should be entered in the blank books without first entering them on loose sheets of paper.

All exercises and sets should be submitted to the teacher for correction before proceeding with the next.

CHAPTER I

THE CASH BOOK

Every individual should keep some record of his receipts and expenditures of cash. Whether that record is a simple one or one that gives much detailed information depends upon the individual.

A person that keeps an exact account of his receipts and expenditures cultivates systematic habits. He is more likely to spend his money wisely and to save than the one who keeps no such record. It enables him to select between the necessary expenditures and the unnecessary.

Cash, Jan. 19—

			RECEIVED		PAID	
Jan.	2	Recd. wages	8	—		
	3	Paid board to 1/2			3	—
	5	" for car fare			1	—
	6	" " concert				25
	9	Recd. wages	8			
	9	" for overtime	1	50		
	10	Paid board to 1/9			3	—
	10	" for stationery				30
	11	" " shoes			3	50
	12	" " handkerchiefs	10	50	1 12	— 05
	15	Balance on hand			5	45
			17	50	17	50
	16	Balance on hand	5	45		

These records, in order to be of value, should be kept in such a way as to give the necessary information in systematic form. The book used for this purpose is the cash book. It may be kept on one page or on two opposite pages. The one-page cash book is well adapted to the keeping of simple personal accounts in a small pocket cash book. By universal custom, *receipts are placed in the left-hand column and payments in the right-hand column.* A form suitable to the individual that does not have a large number of transactions is given on page three.

It is a good plan to balance the cash book often. It may be done weekly or semi-monthly but should always be balanced at the foot of each page.

To Balance a One-Page Cash Book:

1. Add in pencil the "Received" column and the "Paid" column. Make small, neat, pencil figures just below the line on which the last item is written. The pencil figures should not be written on the line.
2. Subtract the amount paid out from the amount received.
3. Enter this difference in the "Paid" column, preferably in red ink, as "Balance on hand."
4. Rule a single red line across the "Received" and "Paid" columns to show that the columns are to be added.
5. Put the equal totals on the next line below in black ink.
6. Rule double red lines on the line on which the totals are entered. These double lines should extend across the "Received" and "Paid" columns and also across the date column.
7. The "Balance on hand" should be brought down below the ruling in black ink and entered in the "Received" column unless that page of the cash book is full, then, it should be taken to the top of the next page. This balance shows the amount on hand to use for the next period.

Ruling. Before writing out any exercises it will be necessary to practice ruling.

Directions:

1. Use red ink for ruling.
2. The ruling edge of the ruler should not touch the paper, but the bevel should run down under.
3. The hand should be turned on its side and the penholder held at an angle of about thirty-five to forty degrees.
4. Double lines should be ruled by turning the hand out, but without moving the ruler.
5. A medium fine pen should be used so as to make a narrow, smooth line.

Exercise in Ruling:

1. Take a sheet of ruled paper and rule a line across the page on each line of the page.

2. On the other side of the paper, rule a line across the page on the line. Without moving the ruler, rule a line under the first just far enough away so that it does not touch the first line. In the same way, rule double lines on each line on the page.

3. Take a sheet of paper ruled with horizontal lines and rule a cash book like the model given.

This practice should be continued until the pupil can rule exactly and neatly.

Exercise 1. Enter the following transactions on a sheet of paper ruled like the model cash book or on journal paper used as a cash book.

January 1. Balance on hand, $7.15. (Enter this in the "Received" column because it represents the amount left at the end of December to be used for January.)
2. Paid for laundry, 45¢.
3. Received wages, $7.50.
3. Paid board to date, $3.50.
5. Paid for car fare, 50¢.
6. Paid dentist, $1.50.
7. Received for addressing envelopes, $1.
8. Paid for hat, $3.50.
9. Paid for basket ball game, 25¢.
10. Received wages, $7.50.
10. Paid board to date, $3.50.
11. Paid for church, 10¢.
12. Deposited in Savings Bank, $3.

Money put into a savings bank is entered as paid out because it has gone out of your possession. The Savings Book will show at any time how much you have in the bank.

15. Paid for subscription to the System Magazine for one year, $2.
15. Paid for stamps, 20¢.

Balance the cash book and bring the balance down January 16. Then make the following entries on the same sheet, below the balance brought down.

16. Paid for book, 50¢.
17. Received wages, $7.50.
19. Paid board to January 17, $3.50.
23. Paid for photo supplies, 75¢.
24. Received wages, $7.50.
24. Paid board to date, $3.50.
25. Paid for shoe polish, 10¢.
27. Paid for gloves, $1.25.

28. Paid for coat, $9.50.
31. Received wages, $7.50.
31. Paid board to date, $3.50.

Balance the cash book and bring the balance down February 1.

It is even more necessary in handling the funds of others to keep a systematic record of receipts and payments. The transactions of the treasurer of a school paper, of a school society, or of an athletic association may be kept in the same way, but it is better to use a two-page cash book, with the receipts on the left page and the payments on the right page opposite. The following form shows the transactions of the treasurer of a school paper.

Cash Receipts, Feb. 19—

Feb.	1	Balance on hand			121	75
	4	Wells & Co.'s ad. for Feb.	3	50		
	6	B. D. Foster's subscription		75		
	9	Jones & Co.'s ad. for Jan., Feb.	3	20		
	14	Proceeds of entertainment	56	45		
	18	Elsie Carr's subscription		75		
	20	S. Barr's ad. for Jan.	5	—		
	23	C. Judd's ad. for Feb.	2	25		
	28	Total receipts for Feb.			71	90
					193	65
Mar.	1	Balance on hand			34	46

It is usually best to enter the balance on hand at the beginning of the month in the second column of the Cash Receipts, so as to keep the receipts for the month separate from the balance at the beginning of the month.

In balancing a two-page cash book, the last column of the Receipts side is used for the total cash received; the last column of the Payments side is used for the total cash paid out and for the balance on hand. The closing single and double lines should be ruled straight across on both the Receipts and Payments sides without moving the ruler. The balance should be brought down below the double lines on the Receipts side or taken to the top of the next page. It should be dated March 1, and put in the last money column to show the amount on hand March 1, left from February.

Exercise 2. Use two opposite pages of a sheet of journal paper,

Cash Payments, Feb. 19—

Feb.	7	Broad Print Co.'s bill	113 15		
	9	Postage, Feb. number	2 05		
	12	Story prize, F. Cass	2 —		
	16	St. car fare	1 —		
	18	Engraving, Mar. number	32 50		
	20	Commission to collectors	3 45		
	23	500 advertising blotters	1 65		
	25	Artists' supplies	1 14		
	27	500 letter heads	2 25		
	28	Total payments for Feb.		159	19
	28	Balance on hand		34	46
				193	65

heading the left Cash Receipts, October 19— and the right Cash Payments, October 19—, and enter the transactions of the treasurer of a school athletic association.

Cash Receipts, Mar. 19—

Mar.	1	Balance on hand			617	25
	3	Cash sales	10	75		
	10	Cash sales	45	95		
	17	Cash sales	38	20		
	24	Cash sales	51	75		
	31	Cash sales	67	15		
	31	Total receipts			213	80
					831	05
Apr.	1	Balance on hand			408	20

TRANSACTIONS

October
1. Received dues from 100 members, $25.
2. Paid telephone charges, 25¢.
3. Paid for 1 doz. receipt books, $1.
5. Paid for advertisement of tomorrow's game, $7.25.
6. Receipts of Grand Rapids football game, $98.75.
6. Paid for athletic field for Grand Rapids game, $10.
6. Paid Grand Rapids team, $60.
9. Received dues from 75 members, $18.75.
10. Paid for football, $3.50.
11. Paid for stationery, $1.50.
13. Receipts of Oak Park football game, $125.75.
13. Paid for athletic field for Oak Park game, $10.
13. Paid officials of Oak Park game, $5.
13. Paid Oak Park team, $75.
18. Received dues from 50 members, $12.50.
20. Paid expenses of faculty manager attending Chicago game, $6.25.

Cash Payments, Mar. 19—

Mar.	1	Invoice of C. E. Niles	175	80		
	3	Rent of store to 4/1	25	—		
	6	Invoice of D. E. Durbin	85	75		
	12	Office books	6	25		
	14	Printing bill	7	85		
	19	Invoice of S. E. Lowe	78	95		
	25	Ad. in Herald	11	25		
	31	Clerk's salary	32	—		
	31	Total payments			422	85
	31	Balance on hand			408	20
					831	05

23. Paid for banner for advertising game, $3.25.
27. Receipts of Gary game, $105.85.
27. Paid Gary team, $65.
27. Paid officials of Gary game, $5.
27. Paid for athletic field for Gary game, $10.
30. Paid for two new suits, $6.50.

Balance the cash book, October 31, and bring the balance down November 1.

A small retail store doing a cash business would keep its account of cash received and paid out in a two-page cash book. Such a cash book would show receipts of cash from the proprietor for his investment and from the sale of goods. It would show payments of cash for goods bought, for expenses incurred in carrying on the business, and for withdrawals of the proprietor for his personal use. The receipts of cash would be entered from the cash register or from cash slips at the end of each day, while the payments would be entered at the time of making the payment. In the model given above the cash sales are entered weekly.

Exercise 3. Enter the receipts and payments of a small retail business in a two-page cash book, and balance it.

TRANSACTIONS

November 1. Balance of cash on hand, $812.75.
3. Paid rent of store for November, $30.
4. Bought goods of S. E. Gray for cash, $308.25.
6. Paid for stationery, $6.45.
8. Cash sales for the week, $37.20.
12. Bought goods of G. B. Bond for cash, $178.95.
15. Cash sales for the week, $46.75.
17. Paid gas bill, $2.15.
19. Paid telephone bill, $3.50.
22. Cash sales for the week, $51.90.
23. Bought goods of C. B. James for cash, $202.85.
25. Paid for 2 tons coal, $11.50.
27. Paid clerk's salary, $30.
29. Cash sales for the week, $68.15.

CHAPTER II

THE MERCHANDISE AND EXPENSE ACCOUNTS

The purpose of the cash books already studied has been to show the cash received and paid out and the balance of cash on hand. That may be sufficient information concerning an individual's private transactions. It may be sufficient for the treasurer of a small society or association, but not for a mercantile business.

The cash book gives detailed information of receipts and payments of cash, but not in a form so that the merchant can easily and quickly find out how much was received for this purpose or that or how much was paid out for one thing or the other. It is difficult to obtain this information for any considerable period from the cash book.

The ledger, a book of accounts, is used for this purpose. The cash book is a book of entry, the ledger classifies these entries.

The ledger is a book in which the items from the original books of entry are classified under appropriate headings called accounts.

The ledger is divided into two sides, a *debit* and a *credit*. The debit is to the left and the credit to the right. The ruling of each side is the same. The ordinary form of the ledger follows:

DEBIT					CREDIT				
Date		Details	Folio	Amount	Date		Details	Folio	Amount

If the business is a cash business, the chief accounts necessary to classify the items of cash received and paid out are the Merchandise and the Expense accounts. This does not include the proprietor's investments and withdrawals which will be studied in the next chapter.

The Merchandise Account. This account is kept to show our dealings in the goods that are a part of the stock in trade of the business.

Whenever merchandise is sold, the seller makes out an invoice and sends it to the buyer. It contains the parties and their addresses, the date, the terms, and the articles sold. It may contain a great many things in addition; such as, advertising matter, details of the shipment, and by what railroad shipped. A popular form is illustrated here.

Milwaukee, Wis., Apr. 10, **19**—

M r. Chas. Osborn
Dubuque, Iowa

TO Miller & Tharp **DR.**

Terms Cash

	10	bx. L. Soap	3 40	34	—		
	8	bbl. Swan Flour	4 15	33	20		
	5	bags Rio Coffee	625# 21¢	131	25	198	45
		Received payment					
		Apr. 10, 19—					
		Miller & Tharp,					
		by E. C. Mills					

In this invoice, the seller is Miller & Tharp and the buyer, Charles Osborn.

All merchandise bought, whether cash is paid for it or time is given

for payment, is a debit to Merchandise. All merchandise sold whether for cash or on time is a credit to Merchandise.

The Merchandise account illustrated here is explanatory and contains more details than are necessary in actual practice.

Merchandise

PURCHASES					SALES				
19—					19—				
Nov.	1	Cash	175	—	Nov.	5	Cash	72	—
	8	Acct. 10 da.	115	—		10	Acct. 15 da.	97	25
	12	Acct. 30 da.	162	50		18	Cash	35	—
	18	Cash	78	25		25	Acct. 10 da.	136	40
	20	Acct. 10 da.	96	45		28	Acct. 30 da.	81	75
	24	Cash	152	80		30	Cash	112	35
	29	Acct. 15 da.	48	75					

In this account, on the debit side, all items named *Cash* mean that merchandise was purchased and that cash was given in payment. All items named *Account* mean that merchandise was purchased but that instead of paying cash, we owe some one for the merchandise.

On the credit side, all items named *Cash* mean that merchandise was sold and that cash was received in payment. All items named *Account* mean that merchandise was sold but that instead of receiving cash, some one owes the business for it.

The Expense Account. The Expense account is debited for all sums paid out for carrying on the business. In a small business, one general account is kept for all expenses, such as, rent, clerk hire, fuel, postage, stationery, printing, advertising, telegrams, telephone, etc. In a larger business where more detailed information is necessary, a separate account is usually kept for each of the most important classes of expense. The name of the account, then, indicates the nature of the items to be charged to that account; as, Rent, Salaries, Fuel and Light, Stationery, Advertising, etc.

An itemized statement of the things bought or of the services rendered for carrying on the business is called a *bill*. It may be the

same in form as an invoice, differing only in the nature of the things purchased, or, it may take a different form.

The form here illustrated is a common one.

Milwaukee, Wis., May 3, 19—

Messrs. Sarnow & Holt,
Waukegan, Ill.

BOUGHT OF N. N. West & Co.

Terms Cash, less 2%

	1	Cash Book, 300 pages	2	75		
	1	Ledger, 300 "	3	25		
	5	doz. Pads 35¢	1	75		
			7	75		
		Less 2%		16	7	59
		Received payment				
		May 3, 19—				
		N. N. West & Co.				
		by C. L. G.				

By many the word *bill* is used to refer to a purchase either of merchandise or of something to be used in carrying on the business.

The Expense account is credited when something that had been purchased for carrying on the business is sold, or when a rebate is obtained on something that has been purchased and charged to Expense.

An explanatory Expense account is given in detail on page 15.

Of the items on the debit side, the first means that money was paid out for the use of a room or building. The second, third, fourth, and

Expense

19-				19-			
Mar.	1	Rent	25—	Mar.	15	Coal	5—
	3	Office books	5 25				
	4	Stationery	3 25				
	5	Postage	1—				
	7	Telephone	4 50				
	8	Coal	23 75				
	10	Advertising	3 85				
	13	Clerk's salary	8—				

sixth mean that the business bought something for the carrying on of the business. The fifth, seventh, and eighth mean that money was paid out for services rendered the business. The credit of $5 means that some of the coal bought for the use of the business has been sold.

Everything that appears in the ledger accounts must first be entered in the cash book or in another book of entry. The ledger is a book of classification and not a book of entry. In order to classify entries in the ledger each entry in the cash book must be given the name of the account under which the item is to be transferred. Instead of writing "Invoice of S. N. Carson," the name of the account affected will be given first, as follows: "*Merchandise—Invoice of S. N. Carson.*" Instead of writing, "Clerk's salary," "*Expense—Clerk's salary*" will be written.

The cash book of the retail store illustrated in Chapter I is rewritten on pages 16 and 17 to show the accounts affected by the receipts and payments of cash.

Exercise 4. Use two opposite pages of a sheet of journal paper as a cash book. Enter the following transactions by naming the accounts affected by the transactions. Use the cash book illustrated on pages 16 and 17 as a guide.

September 1. The balance of cash on hand is $478.15. (Enter this in the last column of the Cash Receipts.)
3. Paid rent of store in cash, $35.
5. Bought an invoice of merchandise of J. C. Dryer for cash, $196.15.

Cash Receipts, March 19—

		L. F	Account To Be Credited					
Mar.	1		Balance	On hand			617	25
	3		Mdse.	Cash sales	10	75		
	10		Mdse.	" "	45	95		
	17		Mdse.	" "	38	20		
	24		Mdse.	" "	51	75		
	31		Mdse.	" "	67	15		
	31		Cash	Total			213	80
							831	05
Apr.	1		Balance	On hand			408	20

6. Cash sales for the week, $49.20.
8. Bought 3 tons of coal at $4.95 a ton.
10. Paid the H. C. Miller Co. for office books, $12.15.
13. Cash sales for the week, $87.55.
15. Bought an invoice of merchandise of C. D. Paul for cash, $217.65.
18. Paid the Herald Co. $13.80 for advertising.
20. Cash sales for the week, $163.90.
23. Paid for telephone, $4.50.
26. Bought an invoice of merchandise of G. E. Thomas for cash, $206.45.
27. Cash sales for the week, $138.95.
29. Paid J. C. Foster for repairs to store, $9.35.
30. Paid clerk's salary, $24.
30. Cash sales for two days, $36.55.

Balance the cash book.

Cash Payments, March 19—

		L. F.	ACCOUNT TO BE DEBITED					
Mar.	1		Mdse.	Inv. of C. E. Niles	175	80		
	3		Expense	Rent to 4/1	25	—		
	6		Mdse.	Inv. of D. E. Durbin	85	75		
	12		Expense	Office books	6	25		
	14		Expense	Printing bill	7	85		
	19		Mdse.	Inv. of S. E. Lowe	78	95		
	25		Expense	Ad. in Herald	11	25		
	31		Expense	Clerk's salary	32	—		
	31		Cash	Total			422	85
	31		Balance	On hand			408	20
							831	05

Before studying the next chapter, make a careful study of the cash book here illustrated, as it is the form that will be used in the first practice work.

The explanations are very important, as they give information that is often very valuable to the business. They should be clear and definite and yet brief. Only one line should be used for the explanation of each transaction because it is a poor practice to leave a line in the amount column blank.

CHAPTER III

ACCOUNTS WITH PERSONS

Business is no longer carried on chiefly for cash. In wholesale, jobbing, and manufacturing businesses, purchases and sales for cash are few in number. In the retail trade, cash purchases and sales are much more frequent, but there are many purchases and sales on account.

A purchase "on account" means that the buyer agrees to pay for the invoice after some time has elapsed, depending on the terms of the sale or the practice of the particular business. In order to record these purchases and sales on account, accounts with persons must be kept.

Accounts are kept with three different classes of persons:

1. Those from whom the business buys, called *creditors.*
2. Those to whom the business sells, called *customers.*
3. Those that invest in the business, called *proprietors* or *owners.*

Accounts with creditors and with customers are called *personal accounts.* Accounts with proprietors or owners are called *capital* or *ownership accounts.*

An account with a creditor or with a customer is a personal account whether it records dealings with an individual, a partnership, or a corporation.

Accounts With Creditors. When goods are bought on account it is necessary for the business to keep a record of the persons to whom the money is owed, how much is owed, and when it should be paid.

If goods are purchased on account, Merchandise is received and is debited, but the business does not pay out cash for it. Some other account must be credited, that of the person from whom the business buys.

When the business pays this account in full or in part, the creditor's account must be debited to show how much of the indebtedness is canceled.

Rule. *Credit* a creditor's account when the business becomes indebted to him.

Debit a creditor's account when the business pays the creditor on account, or is allowed something for returned or damaged goods.

An explanatory creditor's account would show merchandise bought from him on the credit side and payments in the form of cash, notes or drafts, or goods returned on the debit side. In the following creditor's account, the credit side shows that the business bought goods from S. N. Dutton at different times on account. The debit side shows that the business paid him cash, gave him a note, and returned goods to him. The business still owes S. N. Dutton the difference between the two sides, $330.90.

S. N. Dutton

19-					19-				
Oct.	12	Cash	726	45	Oct.	3	Acct, 10 da.	726	45
	18	Cash	200	—		15	Acct.	348	25
	22	Note, 30 da.	100	—		20	Acct, 30 da.	218	15
	27	Returned goods	15			28	Acct. 10 da.	127	75
	30	Cash	48	25					

Exercise 5. On ledger paper open accounts for D. E. Tabor and K. L. Minn. Enter the following transactions in the ledger accounts with an explanation of each item.

October 3. Bought an invoice of goods of D. E. Tabor, on account, 10 days, for $386.

5. Bought an invoice of goods of K. L. Minn, on account, for $450.

7. Bought an invoice of goods of D. E. Tabor, on account, 15 days, for $275.

10. Paid K. L. Minn cash, $200, on account.

13. Paid D. E. Tabor cash, $386, for invoice of the 3rd.

15. Bought an invoice of goods of K. L. Minn, on account, 15 days, $230.

20. Paid K. L. Minn cash on account, $100.

22. Paid D. E. Tabor cash for invoice of the 7th, $275.

25. Returned damaged goods valued at $15, to K. L. Minn, on invoice bought on the 15th.

This reduces the amount the business must pay K. L. Minn by $15. Allowances for returned goods or damaged goods are always recorded on the opposite side of the personal account from the purchase of the goods.

28. Bought an invoice of goods of D. E. Tabor, on account, 30 days, for $345.

30. Paid K. L. Minn for invoice of the 15th, less the deduction for damaged goods, cash, $215.

How much does the business owe D. E. Tabor?

How much does the business owe K. L. Minn?

Accounts With Customers. When goods are sold on account, the account of the buyer must be debited for the amount of the sale, because no cash is received but the buyer owes the business for it. He in this way becomes a debtor to the business.

When the customer makes a payment on account or is given an allowance for damaged or returned goods, his account is credited.

Rule. *Debit* a customer's account, when he becomes indebted to the business.

Credit a customer's account when he makes a payment on account or is given an allowance for returned or damaged goods.

An explanatory customer's account would show on the debit side merchandise sold to him and on the credit side payments in the form of cash, notes, drafts, or returned goods.

An explanatory customer's account follows.

C. S. Griffin

19-					19-				
Nov.	5	Acct., 10 da.	386	—	Nov.	8	Damaged goods	14	50
	12	Acct.	248	50		15	Cash	371	50
	18	Acct., 30 da.	97	30		17	Note, 10 da.	248	50
	20	Acct., 10 da.	157	25		30	Cash	157	25

This account shows that C. S. Griffin owes the business the balance of the account, $97.30.

Exercise 6. On ledger paper open accounts for F. A. Timm and M. E. Willis. Enter the following transactions in the ledger accounts with an explanation of each item.

November 3. Sold F. A. Timm an invoice of goods, on account, 10 days, for $295.

5. Sold M. E. Willis an invoice of goods, on account, 15 days, for $235.

7. F. A. Timm returned damaged goods valued at $20.

9. Sold F. A. Timm an invoice of goods, on account, for $412.

12. Sold M. E. Willis an invoice of goods, on account, for $157.50.
13. Received of F. A. Timm for invoice of the 3rd, less $20 for damaged goods returned, cash, $275.
16. M. E. Willis returned damaged goods valued at $15.
20. Received cash of M. E. Willis for invoice of the 5th, $235.
23. F. A. Timm paid $200, on account.
26. Sold an invoice of goods to F. A. Timm on account, for $97.
28. M. E. Willis paid $100, on account.

How much does F. A. Timm owe the business?

How much does M. E. Willis owe the business?

The Capital Account. The account kept with the proprietor to show his relation to the business is called the *proprietor's account* or the *capital account.*

This account is credited for all sums invested by the proprietor. It is debited for all sums withdrawn from the business for personal use. A sum withdrawn may be money withdrawn, merchandise taken for personal use, or the personal debt of the proprietor paid by the business.

Exercise 7. Open ledger accounts with S. E. Curtis, B. N. Carr, C. S. Ross, and F. I. Bowman. Enter the following transactions in the proper accounts, with an explanation of each item.

April 2. Bought an invoice of goods of B. N. Carr, on account, 15 days, for $385.25.
3. Sold an invoice of goods to S. E. Curtis, on account, for $137.50.
5. Sold C. S. Ross an invoice of goods, on account, 15 days, for $43.20.
6. Sold S. E. Curtis an invoice of goods, on account, 30 days, for $58.95.
8. Bought an invoice of goods of F. I. Bowman, on account, for $476.35.
10. Paid B. N. Carr cash, on account, $150.
12. S. E. Curtis paid $75, on account.
14. Paid F. I. Bowman cash, on account, $250.
16. Sold C. S. Ross an invoice of goods, on account, for $123.45.
17. Paid B. N. Carr cash on account, $100.
19. Bought of F. I. Bowman an invoice of goods, on account, for $236.45.
20. C. S. Ross paid his invoice of the 5th in cash, $43.20.

22. Paid B. N. Carr the balance due him on the invoice of the 2d, $135.25.
25. Sold S. E. Curtis an invoice of goods, on account, 10 days, for $257.25.
30. Paid F. I. Bowman cash on account, $275.

Which of these accounts are customer's accounts?
Which are creditor's accounts?
How much does each customer owe?
How much does the business owe each creditor?

CHAPTER IV

PRINCIPLES OF DOUBLE ENTRY BOOKKEEPING

A Book of Entry is a book in which the transactions are entered in systematic form as they occur.

The cash book is the only book of entry so far used. In it are entered all receipts and payments of cash, together with the accounts affected. Every cash book entry has a double effect. An entry on the Cash Receipts is a debit of Cash and a credit of the account named there. An entry on the Cash Payments is a credit to Cash and a debit to the account named there.

These entries are classified under their appropriate headings in the ledger. This is called *posting.*

In the study of purchases and sales of merchandise on account it was found necessary to open accounts in the ledger to show our dealings with creditors and with customers. The nature of these accounts has been explained and a study made of the items that make up the account.

It is not desirable to enter the transactions of a business in the ledger as they occur. The transactions should first be entered in a book of entry and then classified under appropriate headings in the ledger. A new book of entry is necessary as the cash book can contain nothing but cash transactions.

The Journal. The journal is a book of entry in which transactions are entered as they occur with a debit for every credit, or one or more debits that are equal to one or more credits. From this principle of equality, we obtain the following rule.

Rule of Double Entry. Equal debits and credits must result from each transaction.

By this is meant that every entry has a double effect, a debit and a credit effect. This double effect may be named and each effect transferred to the ledger as it is from the journal, or one effect may be understood and transferred to the ledger in total, as it is in the cash book.

General Rule of Debits and Credits.

Debit what the business receives or the account that receives the benefit.

Credit what the business parts with or the account that yields the benefit.

Model entries for purchases and sales, together with a memorandum for beginning the business will now be shown in the journal.

Milwaukee, Wis., Nov. 1, 19—

PAGE 1

	S. Custer has this day begun the General Produce business, investing cash $2000—.					
		1				
1	Mdse.	Invoice on	127	50		
3	To J. C. Braden	acct., 10 da.			127	50
		5				
4	C. D. Hawks	Sold on acct.	34	—		
1	To Mdse.	8 bbl. Apples 4.25			34	—
		7				
	Mdse.	Invoice on	210	25		
	To D. N. Moore	acct., 30 da.			210	25
		9				
	S. E. Groome	Sold on acct., 10 da.	85	—		
	To Mdse.	15 bbl. Flour 4.50 67.50			85	—
		10 " Salt 1.75 17.50				

Analysis of the Journal. The General Rule of Debits and Credits will now be applied to the journal entries.

First Entry. Merchandise is debited because it is received.

J. C. Braden's account is credited because he yields the benefit of the exchange, that is, gives to the business merchandise and receives

nothing in return except an implied promise to pay him at some future time. The items purchased need not be recorded because when a business buys goods it will receive an invoice with the items listed. The invoice is kept for reference in some convenient file.

SECOND ENTRY. C. D. Hawks' account is debited because he receives the benefit of the exchange and gives the business nothing in return except an implied promise to pay.

Merchandise is credited because it is parted with. The items sold must be recorded as the business gives out the invoice to the customer and must have a record of what was sold, in permanent form.

THIRD ENTRY. This entry is similar to the first.

FOURTH ENTRY. This entry is similar to the second. The explanation of the sale requires three lines. The debit amount must always be on the same line with the debit account and the credit amount on the same line with the credit account.

POSTING

Posting is transferring the debits and credits from the books of entry under the proper headings in the ledger.

To Post the Journal. FIRST ENTRY. The first part of the entry is a debit to Merchandise. Post it as follows:

Merchandise

PAGE 1

19–										
Nov.	1		J	1	127	50				

The second part is a credit to J. C. Braden's account, as follows:

J. C. Braden

PAGE 3

19–										
Nov.	1		J	1	127	50				

SECOND ENTRY. The first part is a debit to C. D. Hawks' account, as follows:

C. D. Hawks

PAGE 4

19– Nov.	5			J	1	34	–						

The second part is a credit to Merchandise. The Merchandise account would then appear as follows:

Merchandise

PAGE 1

19– Nov.	1			J	1	127	50	19– Nov.	5		J	1	34 –

Cash Receipts, Jan. 19–

PAGE 2 L. F. ACCOUNT TO BE CREDITED

Jan.	1	1	C. E. Brooks	Investment		1800	–				
	10	2	Mdse.	Sale to J. Tarrant		65	50				
	15		C. D. Braun	On acct.		75	–				
	24		Mdse.	Sale to D. Wild		109	50				
	28		S. G. Garner	In full of acct.		146	75				
	31		Cash Dr.	Total				2196	75		
								2196	75		
Feb.	1		Balance	On hand				1427	25		

The other journal entries should be posted in the same way. The page in the folio column to the left of the names of the accounts in the journal shows how much of the journal has been posted.

A cash book containing receipts and payments on account, proprietor's investment and withdrawals, as well as purchases and sales of merchandise for cash, and payments for carrying on the business will now be shown. (See illustrations below.)

ANALYSIS OF CASH BOOK ENTRIES

Cash Receipts. First Entry. Cash is understood to be debited because it is received. C. E. Brooks' account is credited because he yields the benefit to the business by investing cash.

Second Entry. Cash is understood to be debited because it is received. Merchandise is credited because it is parted with.

Third Entry. Cash is understood to be debited because it is received. *Every entry on the Receipts side is a debit to Cash because it is received.*

C. D. Braun's account is credited because he yields a benefit to the business by paying on account.

Fourth Entry. Same as second.

Fifth Entry. S. G. Garner's account is credited because he yields a benefit to the business by paying all of his account.

Cash Payments Jan. 19—

		L. F.	ACCOUNT TO BE DEBITED				PAGE 3
Jan.	2	2	Expense	Rent to 2/1	30 —		
	4	2	Mdse.	Inv. of L. E. Styles	367	45	
	8		Expense	Office books	11	25	
	15		N. A. Ewing	On acct.	100 —		
	20		J. E. Gardner	Inv. of the 10th	175	80	
	25		C. E. Brooks	Personal use	50 —		
	31		Expense	Clerk's salary	35 —		
	31	1	Cash Cr.	Total			769 50
	31		Balance	On hand			1427 25
							2196 75

Cash Payments. First Entry. Expense is debited because the business receives the benefit of the use of the store room.

Cash is understood to be credited because it is parted with.

Second Entry. Merchandise is debited because it is received. Cash is understood to be credited because it is parted with. *Each entry on the Payments side is a credit to cash.*

Third Entry. Expense is debited because the business receives the office books for use in carrying on the business.

Fourth Entry. H. A. Ewing's account is debited because he received the benefit of the payment.

Fifth Entry. J. E. Gardner's account is debited because he received the benefit of the payment to him of the invoice bought on the 10th.

Sixth Entry. C. E. Brooks' account is debited because he received the benefit of the money withdrawn for personal use.

Seventh Entry. Expense is debited because the business received the benefit of the clerk's services.

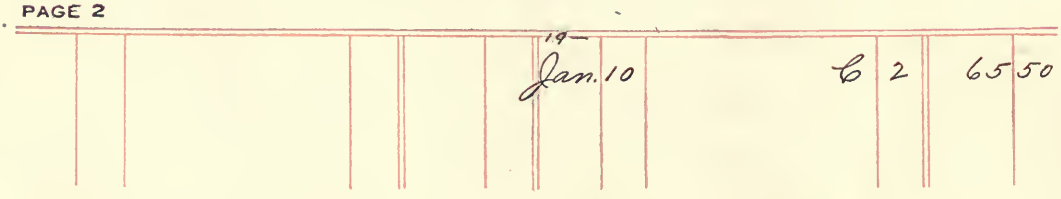
TO POST THE CASH BOOK

Cash Receipts. First Entry.

C. E. Brooks

Second Entry.

Merchandise



Credit each other account for the amount specified, and put the page of the ledger in the folio column of the cash book to the left of the name of the account.

Since each entry is understood to be a debit of cash, our double

entry principle will be satisfied if we post but one debit to the Cash account instead of five separate debits.

Debit Cash for the total $2,196.75 as follows:

Cash

PAGE 1

| 19– | | |

MODEL

Cash Receipts, Jan. 19—

PAGE 2

		L. F	ACCOUNT TO BE CREDITED				
Jan.	1	1	S. N. Boden	Investment	1500	—	
	4	1	Mdse.	Cash sales	17	25	
	11	1	Mdse.	" "	72	15	
	18	1	Mdse.	" "	104	45	
	21	2	C. S. Baxter	Inv. of the 8th	124	50	
	25	1	Mdse.	Cash sales	81	75	
	30	2	S. N. Good	Inv. of the 18th	63	75	
	31	1	Mdse.	Cash sales	58	65	
	31	1	Cash Dr.	Total			2022 50
							2022 50
Feb.	1		Balance	On hand			1085 70

CASH BOOK

Cash Payments, Jan. 19—

PAGE 3

		L. F	ACCOUNT TO BE DEBITED				
Jan.	2	1	Expense	Rent to 2/1	25 —		
	2	1	Mdse.	Invoice of C.S. Cass	375 75		
	6	1	Expense	Office books	12 20		
	8	1	Mdse.	Invoice of S. Ray	157 10		
	15	1	Expense	2 tons coal	12 25		
	16	2	B.D. Foley	On acct.	100 —		
	17	1	Expense	Stationery bill	14 —		
	23	2	T.A. Carr	On acct.	175 —		
	30	1	Expense	Clerk's salary	25 50		
	31	1	S.N. Boden	Personal use	40 —		
	31	1	Cash Cr.	Total		936 80	
	31		Balance	On hand		1085 70	
						2022 50	

MODEL JOURNAL

Chicago, Ill., Jan. 1, 19—

S. N. Boden has this day begun the General Produce business, investing cash, $1500.

		7			
1	Mdse.	Invoice on		218 90	
2	To B. D. Foley	acct.			218 90
		8			
2	C. S. Baxter	Sold on acct.		124 50	
1	To Mdse.	30 bbl. Apples	4.15		124 50
		15			
1	Mdse.	Invoice on		268 95	
2	To T. A. Carr	acct.			268 95
		18			
2	S. N. Good	Sold on acct. 10 da.		63 75	
1	To Mdse.	10 bbl. Apples	4.25	43 50	
		27 bu. Potatoes	.75	20.25	63 75
		22			
1	Mdse.	Invoice on		117 85	
2	To B. D. Foley	acct., 30 da.			117 85
		25			
2	C. S. Baxter	Sold on acct., 15 da.		54 —	
1	To Mdse.	60 bu. Potatoes	.90		54 —
		26			
1	Mdse.	Invoice on		116 45	
2	To C. D. Sand	acct., 10 da.			116 45

MODEL LEDGER

S. N. Boden

PAGE 1

19–					19–				
Jan. 31		C	3	40 —	Jan. 1		C	2	1500 —

Merchandise

19–					19–				
Jan. 2		C	3	375 75	Jan. 4		C	2	17 25
	7	J	1	218 90		8	J	1	124 50
	8	C	3	157 10		11	C	2	72 15
	15	J	1	268 95		18	J	1	63 75
	22	J	1	117 85		18	C	2	104 45
	26	J	1	116 45		25	J	1	54 —
				1255 00		25	C	2	81 75
						31	C	2	58 65
									576 50

Expense

19–									
Jan. 2		C	3	25 —					
	6	C	3	12 20					
	15	C	3	12 25					
	17	C	3	14 —					
	30	C	3	25 50					
				88 95					

Cash

19–					19–				
Jan. 31		C	2	2022 50	Jan. 31		C	3	936 80

MODEL LEDGER

B. D. Foley

PAGE 2

19– Jan.	16		C	3	100 —	19– Jan.	7		J	1	218 90
							22		J	1	117 85

C. S. Baxter

19– Jan.	8		J	1	124 50	19– Jan.	21		C	2	124 50
	25		J	1	54 —						

T. A. Carr

19– Jan.	23		C	3	175 —	19– Jan.	15		J	1	268 95

S. N. Good

19– Jan.	18		J	1	63 75	19– Jan.	30		C	2	63 75

C. D. Sand

						19– Jan.	26		J	1	116 45

SET I

Use the first and fourth pages of a sheet of journal paper as a journal and the second and third pages as a cash book. Enter the cash transactions in the cash book and all others in the journal.

TRANSACTIONS FOR JANUARY

January 1. B. N. Baxter began business by investing cash, $1,500.

Make a memorandum in the journal, and an entry in the cash book.

2. Paid rent of store for one month, $25.
3. Bought of G. E. Bond, for cash:
   50 bbl. Flour at $5.80
4. Bought of F. S. Norton, on account, 30 days:
   200 bu. Potatoes at 65¢

The item bought should not be recorded in the journal entry.

6. Sold S. E. Curtis, for cash:
   25 bbl. Flour at $6.05
9. Paid for bill heads, $2.50.
12. Sold C. E. Niles, on account, 10 days:
   75 bu. Potatoes at 80¢

Record the item sold in the journal entry.

16. Sold S. E. Lowe, for cash:
   50 bu. Potatoes at 82¢
18. Bought of B. N. Carr, on account:
   40 bbl. Apples at $3.75
22. Paid B. N. Carr cash, on account, $50.
24. Received cash, $60, for the sale to C. E. Niles on the 12th.
26. Sold L. S. Stewart, for cash:
   25 bbl. Flour at $6.40
27. Paid F. S. Norton cash, on account, $80.
28. Sold C. E. Niles, on account, 30 days:
   15 bbl. Apples at $4.30
29. B. N. Baxter, the proprietor, withdrew $25 for personal use.

Does the business receive cash or pay it out?

31. Paid clerk's salary for two weeks in cash, $15.

CLOSING WORK

1. Balance the cash book.

2. Post the journal entries to the ledger. Do not forget that each ledger posting must show the *date*, *J*, the *page of the journal*, and

the *amount* The letter and page show from what book and page the entry was posted. After posting the debit of the entry, put the page of the ledger to which the entry has been posted in the folio column of the journal to the left of the name of the account. Do the same thing after posting the credit to the ledger.

3. Post the cash book as follows:

a) Credit each account named on the receipts side of the cash book. Put C and the page of the cash receipts in the ledger to show from what book and page each entry is posted. Put the page of the ledger to which you have posted in the folio column to the left of the name of each account in the cash book.

b) Post the total cash received for the month to the debit of the Cash account in the ledger. The date in the ledger will be the last day of the month, January 31. Do not forget to place C and the page of the cash receipts in the ledger account nor the page of the ledger to which you have posted in the folio column of the cash book.

c) Debit each account named on the payments side of the cash book. Do not forget to place C and the page of the cash payments for each posting and the page of the ledger in the folio column of the cash book.

d) Credit the Cash account for the total cash paid out, using January 31, C, the page of the cash payments, and the amount. Put the page of the ledger in the folio column of the cash book.

When you have finished posting, present your journal, cash book and ledger to your teacher for approval.

Keep all these papers until Set I is entirely completed. You will study the other steps to be taken in the succeeding chapters before completing Set I.

Note: The following are the necessary steps for each set:

1. Make the entries.
2. Post to the ledger.
3. Take a trial balance.
4. Make statements.
5. Close the ledger.
6. Make a proof trial balance.

CHAPTER V

THE TRIAL BALANCE

Double entry bookkeeping provides a test of the posting to the ledger. That test is the *Trial Balance.*

In making entries in the journal, there was an equal credit for every debit. The debits from the journal have been posted to the debit side of the respective accounts. In the ledger the credits from the journal have been posted to the credit side of the respective accounts.

In making entries in the cash book on the receipts side, Cash was understood to be debited and the respective accounts named were credited. In posting to the ledger, but one debit to Cash was posted for the sum of the accounts credited. On the payments side, each account named was posted to the debit side and Cash was credited for the total. In this way the ledger has been kept in equality. The sum of the debits of all the accounts should equal the sum of the credits of all the accounts.

A Trial Balance is a list of the open accounts in a ledger with the debit and credit footings, or the balances set opposite the names of the accounts, and with the total debits and credits equal.

Open Accounts are those accounts that do not have the same total on each side of the account. If an account shows exactly the same total on each side of the ledger, it should not appear in the trial balance, as it balances or is closed. The accounts should be listed in the order that they occur in the ledger with the ledger page placed to the left of the name of the account.

Preparations for the Trial Balance. Before a trial balance is made, the following steps should be taken:

1. Without drawing any lines, add the debit side of each account that contains more than one item. Place the footings in small, neat, pencil figures underneath the line on which the last item is entered.

2. In the same way, add the credit side of each account that contains more than one item.

3. Examine the ledger to see whether any accounts foot up the same on each side. Such accounts should be omitted from the trial balance.

Trial Balance of Totals. The simplest method of making a trial balance of the ledger is a trial balance of totals. A trial balance of the totals of the Model Ledger follows:

Trial Balance, Jan. 31, 19—

1	S. N. Boden	40 —	1500 —
1	Mdse.	1255 —	576 50
1	Expense	88 95	
1	Cash	2022 50	936 80
2	B. D. Foley	100 —	336 75
2	C. S. Baxter	178 50	124 50
2	T. A. Carr	175 —	268 95
2	C. D. Sand		116 45
		3859 95	3859 95

It will be noticed that all the accounts in the ledger are listed in the trial balance except that of S. N. Good, which balances.

Value of the Trial Balance. The trial balance tests the equality of the debits and credits of the ledger. It also furnishes information on which to base certain statements made out at the end of each financial period.

The trial balance does not prove the absolute correctness of the ledger. It does not prove the correctness of the entries in the original books. A sale may have been figured out incorrectly. The trial balance does not show this mistake. The wrong account may have been debited or credited. The trial balance does not show this. A debit may have been posted to the debit side of the wrong account. The trial balance does not show the bookkeeper that an error of this kind has been made. In your practice work you may obtain a trial balance of your ledger and yet find that some mistakes have been made which the trial balance does not test.

Trial Balance of Differences. The *trial balance of totals* already explained is the easiest one for the beginner to understand but is not used as much as a *trial balance of differences.*

A ledger in balance is an equation. The same amount may be sub-

tracted from each side of an account in the trial balance and it will not alter the equality of the trial balance. For example, if $40 be subtracted from each side of S. N. Boden's account in the trial balance of totals, nothing would remain on the debit side and $1,460 would be left on the credit side. This is, in effect, subtracting the smaller from the larger side of the account. In the trial balance of differences, this difference is placed on the side that is the larger.

The trial balance of totals when taken as a trial balance of differences would appear as follows:

Trial Balance, Jan. 31, 19—

1	S. N. Boden			1460	—
1	Mdse.	678	50		
1	Expense	88	95		
1	Cash	1085	70		
2	B. D. Foley			236	75
2	C. S. Baxter	54	—		
2	T. A. Carr			93	95
2	C. D. Sand			116	45
		1907	15	1907	15

How to Find Errors in a Trial Balance. If a trial balance does not add up the same on each side, some error must have been made.

It may have been made:

1. In posting to the ledger.
2. In adding or subtracting in the ledger or in the trial balance.
3. In transferring amounts from the ledger to the trial balance.
4. In the omission of one or more open accounts from the trial balance.

To find the mistake:

1. Add each side of the trial balance and find the difference.
2. If the difference is 10¢ or a multiple of it, the mistake is usually an error in addition or subtraction either in the trial balance or in the ledger. Prove subtraction by addition. Prove addition by adding the reverse way.

3. The difference may be due to a failure to post an amount. To find the mistake, look for the amount in the books of entry.

4. If the difference is divisible by two, it may be that an amount has been posted to the wrong side of the account. Divide the difference by two and look for the quotient in the books of entry or in the ledger.

5. If the difference is divisible by 9, there is a strong probability that the error has been caused by a transposition of figures, as $57 posted instead of $75, or a "slide," as 75¢ posted as $75. The figures transposed may be found by taking the difference and dividing it by 9. The quotient represents the difference between the digits transposed. For example, suppose the difference in the trial balance is $54. $54 divided by 9 gives 6. That quotient is the difference between the digits transposed. It may be a transposition of 9 and 3, of 8 and 2, of 7 and 1, of 6 and 0.

Checking the Posting. If these devices fail, the posting of the books should be checked. This is done by using a sharp pencil and putting a small, light pencil mark (✓) on the double line to the left of the amount in the ledger and on the double line to the left of the amount in the book of entry. In checking the journal, take all the debits first, then all the credits.

From the cash book the checking would be as follows:

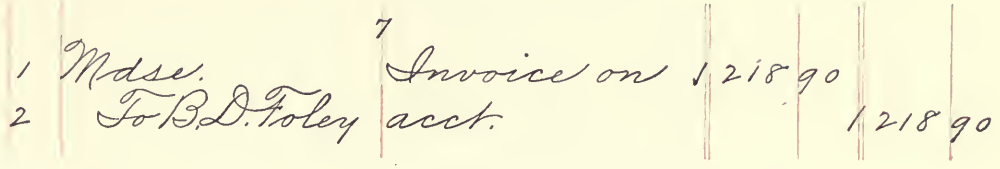
Cash Receipts, Jan. 19—

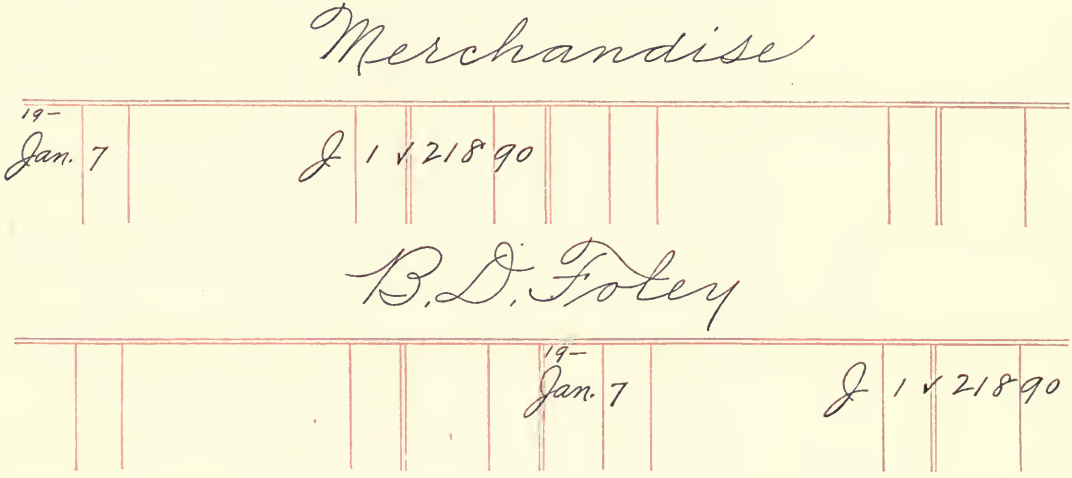
Jan.	1	1	S. N. Boden	Investment	✓ 1500 —

S. N. Boden

19—					
Jan.	1			C 2	✓ 1500

From the journal, check as follows:





SET I (Continued)

Foot each side of each account in the ledger, if the side contains more than one item. Place the footings in small pencil figures underneath the line on which the last item on that side is entered.

Make a trial balance of totals of the ledger. Submit it for approval.

Copy the journal, cash book, ledger, and trial balance in the blank books. Keep the manuscript ledger for further use.

SET II

TRANSACTIONS FOR FEBRUARY

1. Enter each of the following transactions in the cash book or in the journal.
2. Balance the cash book.
3. Post the journal and the cash book to the ledger.
4. Take a trial balance of totals.
5. Present all papers to the teacher for approval.
6. Copy the journal, cash book, ledger, and trial balance in the blank books. Keep the manuscript ledger for further use.

February 1. B. D. Tower began a coal and wood business by investing cash, $2,500.

2. Paid S. N. White for rent of store to March 1, $30.

3. Bought of H. A. Baxter, for cash:
50 tons hard coal at $7.35

4. Paid for an advertisement in a local paper, $3.50.

5. Bought of D. Jenkins, on account:
75 tons soft coal at $2.85

6. Sold C. S. Oliver, for cash:
20 tons hard coal at $8.15

8. Sold D. E. Martin, on account, 15 days:
30 tons soft coal at $3.50

9. Bought of G. H. Franke, on account, 15 days:
125 tons coke at $5.35

10. Paid bill for printing bills and letter heads, $3.75.

11. Paid D. Jenkins cash on account, $125.

12. Sold N. Maas, for cash:
15 tons soft coal at $3.45

13. Sold D. Fox, on account:
40 tons coke at $5.75

15. Bought of D. Jenkins, on account, 20 days:
50 tons soft coal at $2.80

16. Sold J. O. Bauer, on account:
65 tons coke at $5.80

17. Paid D. Jenkins cash, on account, $50.

18. Received cash of D. Fox, on account, $150.

19. Sold D. E. Martin, on account, 30 days:
15 tons hard coal at $7.50

20. Paid G. H. Franke cash, on account, $200.

22. Bought of H. A. Baxter, for cash:
25 tons hard coal at $7.40

23. Received cash of D. E. Martin, for invoice of the 8th, $105.

24. Paid G. H. Franke cash, on account, for balance of invoice of the 9th, $468.75.

25. Received cash of J. O. Bauer, on account, $200.

26. Sold D. Fox, on account, 10 days:
40 tons hard coal at $8.10
20 tons soft coal at $3.45

(Have you shown the extension of each item sold in the explanation in the journal?)

27. Paid clerk's salary for two weeks in cash, $15.

27. Paid the City Teaming Co. $25 for making deliveries for the business.

CHAPTER VI

ACCOUNTS CLASSIFIED

Accounts may be divided into *real, nominal* and *mixed.*

Real Accounts are accounts that represent actual values.

Real **Accounts** are either *personal* or *property.*

Personal Accounts are accounts with individuals, partnerships and corporations.

Property Accounts are accounts kept to show the value of property belonging to the business; as, cash, accounts with notes, land, buildings, horses, wagons, office fixtures, machinery, etc.

Nominal Accounts are accounts that name some profit or loss of the business. They are frequently called profit and loss accounts. The only one studied so far has been the expense account. In more advanced bookkeeping, the expense account may be divided into several accounts, and many other accounts may be kept, such as, freight, commission, interest, discount, etc.

Mixed Accounts are accounts that contain both real and nominal elements. The Merchandise account is the best example of a mixed account.

All real accounts show an *asset* or a *liability.*

An Asset is property belonging to the business or an amount owed to the business.

A Liability is an amount owed by the business, whether due or not.

Rule for Real Accounts. Real accounts with the debit side the larger are assets; with the credit side the larger are liabilities.

A personal account must first be examined to see whether the account is that of a customer—one to whom the business has sold, or that of a creditor—one from whom the business has bought.

The debit side of a customer's account is usually the larger because the debit side represents sales to him and the credit side represents payments or allowances on goods. It should show an asset.

The credit side of a creditor's account is usually the larger because the credit side represents purchases from him and the debit side represents payments made to him or allowances given the business on goods. It should show a liability.

Property accounts are usually named in such a way as to indicate the nature of the asset or liability.

Rule for Nominal Accounts. A nominal account shows a loss if the debit side is the larger and a profit if the credit side is the larger.

The expense account is a nominal account that always shows a loss, as it represents money paid out for carrying on the business. If there is anything of value unused, it is a mixed account and also shows an asset.

The Merchandise Account, A NOMINAL ACCOUNT. The merchandise account is debited for the goods bought and credited for the goods sold. If all the goods have been sold, the Merchandise account shows a profit if the credit side is the larger and a loss if the debit side is the larger.

The Merchandise Account, A MIXED ACCOUNT. In any continuous business, some goods are left on hand at the end of the period for which the profit or loss on merchandise is to be found. These goods on hand are called the inventory of merchandise. That makes the merchandise account a mixed account.

Inventory of Merchandise. The Inventory of Merchandise may be found by *taking inventory* or *taking stock.* The merchandise on hand is listed on cards, or loose-leaf sheets, or in a book. It is then computed at the cost price, if it is in a good salable condition. If the goods are shopworn, out of season, out of style or for some other reason will sell for less than cost, they should be computed at the present value.

The inventory may be found, in most businesses by keeping a perpetual inventory book, which shows the merchandise of each kind purchased, sold, and the balance on hand.

The inventory is the *real* element in the merchandise account. It is property. It is an asset. The nominal or profit and loss element must be found.

How to Find the Profit or Loss on Merchandise. There are two methods of finding the nominal element, the profit or loss on merchandise. By one method, the inventory is subtracted from the debit side, which is the cost of all the goods. The difference is the cost of the goods sold. This result is subtracted from the credit side, which is the value of the goods sold. The difference is the profit on Merchandise. If the cost of the goods sold is greater than the selling price, the result is the loss on merchandise.

Expressed in brief form, it would be:

Credit—(Debit—Inventory)=Profit, or,

(Debit—Inventory)—Credit=Loss.

The account method is another method very commonly used, because it is easier to show addition in the ledger accounts than subtraction. By this method, the inventory is added to the value of the goods sold. From this result, the debit is subtracted. The difference is a profit. Or, if the debit is the larger, the difference is a loss.

Expressed as a formula, it would be:

Credit+Inventory—Debit=Profit, or,

Debit—(Credit+Inventory)=Loss.

The trial balance of the Model Ledger will now be analyzed and the accounts classified.

Analysis of Model Ledger. S. N. Boden's account is debited for the money withdrawn from the business and credited for his investment. It is a real account and shows a liability of the business to the proprietor.

Merchandise account is debited for the goods bought and credited for the goods sold. Before ascertaining what the account shows, an inventory must be taken. The inventory value is taken to be $809.25. The account is a mixed account and the nominal or profit and loss element must be found.

First Method:

Merchandise Debit, cost of all the goods	$1255.00
Merchandise Inventory	809.25
Cost of goods sold	$ 445.75
Merchandise Credit, selling price	$ 576.50
Cost of goods sold	445.75
Merchandise Profit	$ 130.75

Second Method:

Merchandise Credit, selling price	$ 576.50
Merchandise Inventory	809.25
Merchandise Value	$1385.75
Merchandise Debit, cost of all the goods	$1255.00
Merchandise Profit	$ 130.75

The account, then, shows a profit of $130.75 and a real element, the inventory, of $809.25.

Expense is debited for anything paid out to carry on the business. It is a nominal account and shows a loss.

Cash is debited for the cash received and credited for the cash paid out. It is a real account and shows an asset.

B. D. Foley's account is credited for the value of the goods bought of him on account and debited for the amount paid by the business on account. It is a real account and shows a liability.

C. S. Baxter's account is debited for the value of the goods sold him on account and credited for the amount received from him on account. It is a real account and shows an asset.

T. A. Carr's account is analyzed the same as B. D. Foley's.

C. D. Sand's account is credited for the value of the goods bought of him on account. Nothing has been paid on it. It is a real account and shows a liability.

Exercise 8. First, as an oral exercise analyze the trial balance of Set I. Use $142.50 as the inventory of goods on hand. Then, write out your analysis of each account in the trial balance. The analysis should state the reason for the debit and for the credit, classify the account, and state what the account shows.

Exercise 9. Analyze in writing the trial balance of Set II. Use $275 as the inventory of goods on hand.

Exercise 10. Find the profit or loss on merchandise. Your teacher will direct you as to which method to use.

a) The debit side of Merchandise is $896.40; the credit side is $975.50. All the goods have been sold.

b) Merchandise Debit, $1275.15; Merchandise Credit, $926.35; Inventory, $389.25.

c) Merchandise Debit, $726.45; Merchandise Credit, $801.50; Inventory, $45.60.

d) Merchandise Debit, $647.55; Merchandise Credit, $501.95; Inventory, $110.40.

Exercise 11. Review. Enter the following transactions in the proper books. Use one page as a journal and two opposite pages as a cash book.

December 1. C. S. Hunter invests $1500 cash in the business.
3. Paid $20 for rent of store.
5. Bought an invoice of merchandise of S. G. Porth, for cash, $217.25.
7. Bought an invoice of merchandise of G. E. Leeds, on account, $167.45.
9. Sold an invoice of merchandise to D. C. Hart, on account, $93.75.
12. Paid $5.75 for one ton of coal.
13. Sold an invoice of merchandise to B. E. Brand, on account, $82.15.
15. Paid G. E. Leeds, on account, $125.
16. Received $60 of B. E. Brand, on account.
17. Bought an invoice of goods of D. A. Carson, on account, $212.35.
20. Received of D. C. Hart, on account, $75.
22. Paid G. E. Leeds, the balance of the invoice of the 7th, $42.45.
24. Sold an invoice of merchandise to C. G. Gorman, for cash, $65.50.

26. Paid D. A. Carson, on account, $80.
27. Sold an invoice of merchandise to D. C. Hart, on account, $115.75.
28. Received of B. E. Brand the balance of his account, $22.15.
31. Paid clerk's salary, $24.

Inventory of Merchandise, $263.25.
Balance the cash book.
Post the journal.
Post the cash book.
Take a trial balance of the ledger.

CHAPTER VII

STATEMENTS

At the end of certain regular periods, statements are made out to exhibit the profits and the losses, the assets and the liabilities, and the present condition of the business. In most businesses these statements are made out annually at the end of the business year. In many they

Six-Column Statement, Jan. 31, 19-

F	ACCOUNT	DEBIT	CREDIT	LOSSES	PROFITS	ASSETS	LIABILITIES
1	S. N. Boden	40 —	1500 —				
1	Mdse.	1255 —	57650		13075		
1	Expense	8895		8895			
1	Cash	202250	93680			108570	
2	B. D. Foley	100 —	33675				23675
2	C. S. Baxter	17850	12450			54 —	
2	T. A. Carr	175 —	26895				9395
2	C. D. Sand		11645				11645
		385995	385995	8895	13075	194895	44715
	S. N. Boden's Net Profit			4180			
				13075	13075		
	S. N. Boden's Net Credit	1460					
	" " " " Profit	4180					
	" " " " Worth						150180
						194895	194895

are made out semi-annually, in not a few, quarterly, and in a few, monthly. In practice work for the learner, they are frequently made out monthly to give valuable practice in classifying accounts and in ascertaining the worth of the business.

Preparation for the Statements. Before statements can be prepared the following steps must be taken:

1. A trial balance must be made.
2. Inventories of anything of value on hand must be taken.

The Six-Column Statement. Different forms of statements are used by bookkeepers and accountants. The easiest one to understand is the Six-Column Statement. It exhibits in parallel columns the debits and credits of the trial balance, the losses and the profits, and the assets and the liabilities.

Using as an inventory of the goods on hand, $809.25, a Six-Column Statement of the trial balance of the Model Ledger is shown on page 48.

The proprietor's *net credit* is found by subtracting his withdrawals from his investment. *The net worth* of the business is found in two ways:

1. By adding the net profit to the net credit or by subtracting the net loss from the net credit.
2. By subtracting the liabilities from the assets.

The proof of the statement, then, is whether the net worth found by the two methods is the same. The net worth is placed in the liability column, at the last, to show that the statement proves and to show that it is a capital liability, a liability to the proprietor for what he left in the business plus the net profit of the business.

Most business houses prefer to show the results of the business in two statements, a Statement of Profit and Loss and a Statement of Assets and Liabilities. The statements illustrated on pages 50 and 51 are made from the trial balance of the Model Ledger and the inventory of goods on hand, $809.25.

By comparing these statements with those of the Six-Column Statement, it will be found that the results are the same. These statements show how the results are obtained in greater detail than the Six-Column Statement, and for that reason they are preferred by most bookkeepers and business men. You will use the Six-Column Statement at first to help you understand the classification, then you will use the Statement of Profit and Loss and the Statement of Assets and Liabilities.

The first column of these statements should be used when there is more than one item under any of the headings. In this statement, Merchandise is the only account that shows a profit, and Expense the only account that shows a loss. For that reason, the last column only is used in this Profit and Loss Statement.

Exercise 12. From the following Trial Balance and Inventory, make a Six-Column Statement:

Statement of Profit and Loss for the month ending Jan. 31, 19—

Profit:				
Merchandise				
Sales		576.50		
Purchases	1255.			
Inventory	809.25			
Cost of goods sold		445.75		
Profit				130 75
Loss:				
Expense Dr.				88 95
Net Profit				41 80
S. N. Boden's Investment			1500 —	
" " Withdrawal			40 —	
" " Net Credit			1460 —	
" " " Profit			41 80	
" " " Worth				1501 80

TRIAL BALANCE, OCTOBER 31, 19—

1	M. N. Sears	$ 75.00	$1750.00
1	Merchandise	1247.25	875.45
1	Expense	67.50	
2	Cash	2172.85	845.40
2	C. N. Brady	216.40	75.00
2	S. B. Carter	125.00	318.25
3	C. E. Barton		72.40
3	D. G. Cameron	118.50	86.00
		$4022.50	$4022.50

Merchandise inventory, $490.75.

Set I. Make a Six-Column Statement for Set I, and keep it for future use. The inventory of merchandise is as follows:

25 bbl. Apples at $3.75	$ 93.75	
75 bu. Potatoes at 65¢	48.75	$142.50

Statement of Assets and Liabilities.
Jan. 31, 19—

	Assets:				
Cash	*On hand*	*1085*	*70*		
C. S. Baxter	*Owes on acct.*	*54*	*—*		
Mdse.	*Per inventory*	*809*	*25*		
Total assets				*1948*	*95*
	Liabilities:				
B. D. Foley	*Due him*	*236*	*75*		
T. A. Carr	*" "*	*93*	*95*		
C. D. Sand	*" "*	*116*	*45*		
Total liabilities				*447*	*15*
S. N. Boden's Net Worth				*1501*	*80*

Copy the inventory after the journal entries like the following:

Inventories, Jan. 31, 19—				
Merchandise:				
10 bbl. L. Flour	*4.10*	*41*	*—*	
12 bx. M. Soap	*3.85*	*46*	*20*	*87* *20*
Expense:				
3 tons Coal	*4.85*			*14* *55*

Do not copy the Six-Column Statement.

Set II. Make a Six-Column Statement for Set II, and keep it for further use. The inventory of merchandise is as follows:

60 tons Soft Coal at $2.80 ..... $168
20 tons Coke at $5.35 ..... 107 $275

Copy the inventory after the journal entries.

CHAPTER VIII

CLOSING THE LEDGER

The statements explained in the last chapter were made from a trial balance of the ledger and the inventory of goods on hand. They are usually kept for reference in a statement book.

The ledger must then be closed to show the net results of the business in permanent form.

In closing the ledger, all nominal accounts and the nominal element of all mixed accounts must be transferred to a Profit and Loss account. This Profit and Loss account corresponds to the Profit and Loss columns of the Six-Column Statement or to the Statement of Profit and Loss. The net result of that account must be the same as the net profit of the statement.

All real accounts must be closed by *Balance* to show the same results as those found in the Asset and Liability columns of the Six-Column Statement or in the Statement of Assets and Liabilities.

Steps Necessary. Before the ledger is closed the following steps should be taken:

1. Take a trial balance.
2. Ascertain the inventories.
3. Make a Six-Column Statement or a Statement of Profit and Loss.
4. It is desirable, but not absolutely necessary, to make a Statement of Assets and Liabilities before closing the ledger.

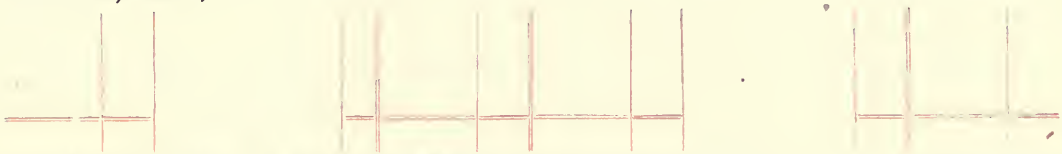
The Model Ledger will now be closed, using the statements already made as guides.

To Close the Merchandise Account:

1. Enter the *Inventory, $809.25,* in red ink on the credit side.
2. Find the sum of the credit side and the inventory, and place the amount in pencil.
3. Subtract the sum of the debit side from the sum of the credit side and the inventory.
4. Enter the difference, *$130.75,* on the debit side as *Profit and Loss.*
5. Rule a single line underneath the last item on the credit side

and on the same line on the debit side. Place the totals below in black ink and rule double lines on the first line below the single line. The single lines should be ruled across the money columns only, thus,

The double lines should be ruled across all but the explanatory columns, thus,



In closing this account, $809.25 has been added to the credit side and $130.75 to the debit side. The ledger is not now in balance. To put it in balance, $809.25 must be added to the debit side of the ledger, and $130.75 to the credit side, as explained below.

6. Bring the inventory down in black ink on the debit side, dating it February 1.

7. Transfer the Profit and Loss item to the credit side of the Profit and Loss account, writing *January 31, Merchandise, $130.75.* The ledger is now in balance again.

Merchandise PAGE 1

19—						19—					
Jan.	2		C	3	375 75	Jan.	4		C	2	17 25
	7		J	1	218 90		8		J	1	124 50
	8		C	3	157 10		11		C	2	72 15
	15		J	1	268 95		18		J	1	63 75
	22		J	1	117 85		18		C	2	104 45
	26		J	1	116 45		25		J	1	54 —
	31	Profit & Loss		2	130 75		25		C	2	81 75
							31		C	2	58 65
							31	Inventory			809 25
					1385 75						1385 75
Feb.	1	Inventory			809 25						

Profit & Loss

PAGE 2

					19— Jan. 31	Mdse.	1	130	75

To Close the Expense Account:

1. Enter *January 31, Profit and Loss, $88.95,* on the credit side in red ink.

2. Rule the account with the single and double lines on the same lines of the debit and credit sides.

Is the ledger in balance?

3. Transfer the loss to the debit side of the Profit and Loss account in black ink, writing *January 31, Expense $88.95.*

Expense

PAGE 1

19—						19—				
Jan.	2	C	3	25	—	Jan. 31	Profit & Loss	2	88	95
	6	C	3	12	20					
	15	C	3	12	25					
	17	C	3	14	—					
	30	C	3	25	50					
				88	95				88	95

The Profit and Loss account would then contain one item on the debit side and one on the credit side.

Profit & Loss

PAGE 2

19—					19—				
Jan. 31	Expense	1	88	95	Jan. 31	Mdse.	1	130	75

To Close the Profit and Loss Account:

1. Find the difference between the credit and debit sides of the account.

2. Enter this difference, *$41.80*, on the debit side in red ink as *S. N. B's Net Profit.*

3. Rule the account.

4. Transfer the Net Profit to the credit side of S. N. Boden's account as follows: *January 31, Profit and Loss, $41.80.*

Profit & Loss

PAGE 2

19–						19–					
Jan. 31	Expense	1	88	95		Jan. 31	Mdse.	1	130	75	
31	S. N. B's Net Profit	1	41	80							
			130	75					130	75	

The Proprietor's account would then show the investment and the net profit on the credit side and the withdrawal on the debit side.

S. N. Boden

PAGE 1

19–						19–					
Jan. 31		C	3	40	—	Jan. 1		C	2	1500	—
						31	Profit & Loss	2		41	80

To Close the Proprietor's Account:

1. Add the credit side and the net profit in pencil.

2. Subtract the debit side from it. The difference is the Net Worth.

3. Enter on the debit side in red ink, *January 31, Net Worth, $1501.80.*

4. Rule the account.

5. Restore the ledger to balance by bringing the Net Worth below the lines on the credit side, *February 1, Net Worth, $1501.80.*

S. N. Boden

PAGE 1

19–						19–					
Jan. 31		C	3	40 —		Jan. 1		C	2	1500 —	
31	Net Worth			1501 80		31	Profit & Loss	2		41 80	
				1541 80						1541 80	
						Feb. 1	Net Worth			1501 80	

This completes the closing of the nominal and mixed accounts, the Profit and Loss account, and the Proprietor's account.

To Close the Cash Account:

1. Find the difference between the debit and credit sides of the account.
2. Enter this difference in red ink on the credit side as follows: *January 31, Balance, $1085.70.*
3. Add each side and rule the account.
4. Bring the Balance down on the debit side in black ink, dating it February 1.

Cash

19–						19–					
Jan. 31		C	3	2022 50		Jan. 31		C	2	936 80	
						31	Balance			1085 70	
				2022 50						2022 50	
Feb. 1	Balance			1085 70							

To Close the Personal Accounts that Do Not Balance:

1. Find the difference between the two sides of the account.
2. Enter the difference as *Balance* on the smaller side in red ink.
3. Add and rule the account.
4. Transfer the Balance to the opposite side of the account in black ink, dating it February 1.

B. D. Foley's account would be closed as follows:

B. D. Foley

19–				19–			
Jan. 16		C. 3	100 —	Jan. 7		J. 1	218 90
31	Balance		236 75	22		J. 1	117 85
			336 75				336 75
				Feb. 1	Balance		236 75

T. A. Carr's account should be closed like B. D. Foley's.

C. S. Baxter's account should be closed by putting the *Balance* in red ink on the smaller (credit) side of the account. The *Balance* should be brought down on the opposite side in black ink.

S. N. Good's account balances. It should be ruled with single lines only as it contains but one item on each side.

S. N. Good

19–				19–			
Jan. 18		J. 1	63 75	Jan. 30		C. 2	63 75

C. D. Sand's account should not be ruled as it contains but one item.

Rules for Transferring Red Ink Items:

1. Everything entered in red ink to close must be brought down in black ink on the opposite side of the ledger.

2. Inventories, Balances, and Net Worth are transferred to the opposite side of the same account.

3. Profit and Loss items, including Net Profit, must be transferred to the opposite side of some other account.

Proof Trial Balance. After the ledger has been closed, nothing remains open on the books but assets and liabilities. The sum of the debits (assets) must equal the sum of the credits (liabilities). A Proof Trial Balance is taken to show that all transfers have been brought down properly. The proof trial balance should always be made.

Proof Trial Balance, Feb. 1, 19—

1	S. N. Boden		1501 80
1	Mdse.	809 25	
1	Cash	1085 70	
2	B. D. Foley		236 75
2	C. S. Baxter	54 —	
2	T. A. Carr		93 95
2	C. D. Sand		116 45
		1948 95	1948 95

When listed in a balanced table and properly explained the Proof Trial Balance becomes the Balance Sheet of the accountant. This will be explained in the advanced work.

Exercise 13. On a sheet of ledger paper open the following accounts and a Profit and Loss account. Open three accounts on the first page of the ledger and four on the second. The Merchandise inventory is $455. Close the ledger, March 31. Make a Proof Trial Balance.

C. D. Bowen, Proprietor

19-					19-				
Mar.	15		C 3	75 —	Mar.	1		C 2	2000 —

Merchandise

19-					19-				
Mar.	6		C 3	315 —	Mar.	8		C 2	117 —
	12		J 1	412 —		15		C 2	252 —
	21		J 1	316 —		22		J 1	318 —

Expense

19-									
Mar.	1		C 3	20 —					
	15		C 3	12 —					
	30		C 3	16 —					

CASH

19-						19-					
Mar.	31		C	2	2519 —	Mar.	31		C	3	738 —

C. S. BARTON

19-						19-					
Mar.	18		C	3	300 —	Mar.	12		J	1	412 —
							21		J	1	316 —

B. E. FRENCH

19-						19-					
Mar.	22		J	1	318—	Mar.	25		C	2	150—

SET I (Completed)

1. Make a Statement of Profit and Loss from the trial balance and the inventory of $142.50, given in Chapter VII.
2. Make a Statement of Assets and Liabilities.
3. Close the manuscript ledger, using these statements as guides.
4. Make a Proof Trial Balance, February 1.

After the work has been approved by the teacher:

1. Copy the Statements of Profit and Loss and of Assets and Liabilities in the blank books.
2. Close the ledger in the blank books.
3. Examine your ledger to see whether it agrees with the Proof Trial Balance of your manuscript ledger.

SET II (Completed)

Make statements of Profit and Loss and of Assets and Liabilities, using the inventory, $275, given in Chapter VII. Close the ledger and make a proof trial balance. Copy everything in the blank books in the same way as in Set I.

Oral Exercise. 1. Analyze the journal and cash book entries of Set II. Apply the rule of Debits and Credits, and give a reason for the debit and the credit of each entry.

2. Analyze the ledger of Set II by giving the reason for the debits and credits of each account and by explaining what the difference of each account means.

Special Instructions to the Student. You have now completed the necessary steps in entering the transactions, proving the work, finding out the condition of the business, and proving up the ledger after closing. This has been done with Sets I and II. You should now understand the routine work of each of these months, how each step is taken, and why.

You should be able to rule paper for any of the books you have used. You should be able to balance a cash book and to close any ledger account properly without having a model before you.

Can you analyze any entry and any account that you have had? Your ability to do this and to think out new transactions will to a large extent determine your progress.

Accuracy. You have learned by this time that to hurry the work usually means a lack of accuracy. You must take time to do the work accurately. Inaccurate, careless figures, poor form, and hurried computations mean a lack of accuracy. Careful work when making the entries and posting will save much of the time that otherwise would have to be devoted to finding mistakes.

Neatness. All papers that you make out should be the very best you can do. Your penmanship should be written in a good business style that is free from flourishes. Your writing must not be too large, as many books and forms have narrow rulings. You should be extremely particular about your figures. Never join them together.

No word or figure written in ink should ever be marked over or erased. A red line should be drawn through the incorrect word or figure and the correct word or figure written above in black ink. Books of entry often become valueless as a means of proving an account, in case of a dispute between the parties, because they are poorly kept. Careless corrections and lack of neatness may result in the refusal of a court to allow the books to be used as evidence.

The cultivation of habits of accuracy and neatness will be of great value to you in business life.

SET III. RETAIL FLOUR AND FEED

a) Enter the following transactions in the books of entry, or if the teacher desires, they may be entered on loose sheets of paper and afterwards copied in the books.

March 1. C. S. Morton began the Flour and Feed business by investing cash, $2500.

2. Paid rent of store for one month, $40.

3. Bought of the City Flour Co., for cash:
   50 bbl. Lily Flour at $4.35

4. Bought of the Valley Mills, on account:
   4000 lb. Bran at $2.60 per hundred
   1000 lb. Corn Meal at $1.50 per hundred

5. Sold G. C. Grace, on account:
   15 bbl. Lily Flour at $4.90
   300 lb. Corn Meal at $1.85 per hundred

Have you extended the amount of each item?

6. Cash sales for the week, $37.35.
8. Paid an advertising bill in cash, $18.75.
9. Bought of the Wright Grain Co., on account:
   500 bu. Yellow Corn at 62¢
   1000 bu. White Oats at 37¢
10. Sold B. C. Yoder, on account:
   500 lb. Bran at $3.25 per hundred
   100 bu. Yellow Corn at 78¢
11. Sold F. C. Winter, on account, 10 days:
   25 bbl. Lily Flour at $4.95
12. Paid Lowe Print Co. $13.75 for printing bills and letter heads.
13. Cash sales for the week, $62.60.
13. Paid the Valley Mills Co. $75, on account.
15. Received of G. C. Grace cash on account, $50.
15. Bought of the Western Coal Co. for cash:
   4 tons coal at $5.40
16. Bought of the Badger Flour Co., on account:
   200 sacks Whole Wheat Flour at 35¢
   125 bu. Wheat at 89¢
17. Sold G. C. Grace, on account:
   50 bu. Wheat at 97¢
   200 bu. Yellow Corn at 76¢
   25 sacks Whole Wheat Flour at 48¢
18. Paid the Valley Mills Co. the balance due them, $44.
19. Bought of the Moore Flour Co., on account:
   75 bbl. Lily Flour at $4.25
   500 lb. Corn Meal at $1.55
20. Cash sales for the week, $76.15.
20. B. C. Yoder paid $75, on account.
22. F. C. Winter paid for his invoice of the 11th, $123.75.
22. Paid the Badger Flour Co. $125, on account.
23. Sold F. C. Winter, on account, 30 days:
   30 bbl. Lily Flour at $5.05
   300 lb. Corn Meal at $1.90
24. Bought of the Valley Mills Co., on account:
   750 bu. Yellow Corn at 61¢
25. G. C. Grace paid $125, on account.
26. Sold B. C. Yoder, on account:
   500 bu. White Oats at 47¢
27. Cash sales for the week, $87.45.
29. Sold G. C. Grace, on account:
   1000 lb. Bran at $3.35
   100 sacks Whole Wheat Flour at 45¢
30. The proprietor withdrew $60 from the business.

31. Cash sales for two days, $31.95.
31. Paid clerk's salary in cash, $32.
31. Paid Badger Fuel Co. $32.75 for making deliveries.

b) Post to the ledger.

c) Take a Trial Balance of differences.

d) Make Statements of Profit and Loss and of Assets and Liabilities, using the following inventories:

Merchandise, per schedule on file, $998.25

Expense, 2 tons coal at $5.40, $10.80

What effect will the inventory of $10.80 have on the loss in Expense? Why?

What effect will it have on the assets of the business?

Does the Expense inventory make the net worth of the business greater or less? Why?

e) Close the accounts in the ledger in the following order:

1. Merchandise
2. Expense, like the following:

Expense

PAGE 5

19–							19–					
Jan.	2		C	3	40 —		Jan.	31	Inventory		5 25	
	8		C	3	8 25			31	Profit & Loss	7	83 15	
	20		C	3	10 15							
	30		C	3	30 —							
					88 40						88 40	
Feb.	1	Inventory			5 25							

Profit & Loss

PAGE 7

19–												
Jan.	31	Expense	5	83 15								

3. Profit and Loss
4. C. S. Morton
5. Cash
6. Personal Accounts, except the following:
   Wright Grain Co.'s account
   Moore Flour Co.'s account

f) Make a Proof Trial Balance.

Exercise 14. From the following Trial Balance and inventory, make a Six-Column Statement:

TRIAL BALANCE, MARCH 31, 19—

G. E. Betts, Proprietor	$ 75.00	$2000.00
Merchandise	1976.25	1271.30
Expense	72.50	
Cash	2846.30	982.50
L. N. Newton	525.00	170.00
C. L. Boyer	375.00	305.00
B. C. Bauer	150.00	615.00
M. C. Morter	200.00	876.25
	$6220.05	$6220.05

Merchandise inventory, $846.25.

Exercise 15. From the following Trial Balance and inventories, make Statements of Profit and Loss and of Assets and Liabilities.

TRIAL BALANCE, MAY 31, 19—

C. E. Sorenson, Proprietor	$ 125.00	$2500.00
Merchandise	2136.45	1512.40
Expense	81.75	
Cash	3174.25	1217.85
B. C. Parsons	312.15	72.15
L. E. Sterns	296.35	120.35
F. A. Beggs	586.40	164.25
W. A. Trester	263.85	936.35
G. E. Zartner	230.45	683.30
	$7206.65	$7206.65

Merchandise inventory, $667.15.
Expense inventory, $15.

REVIEW QUESTIONS

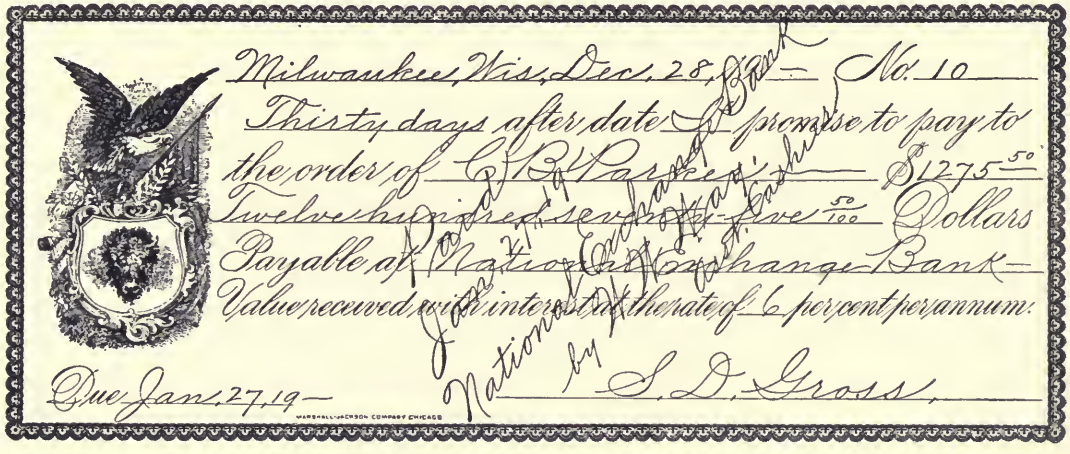
1. Give the rule of debits and credits.
2. Define merchandise. Define expense.
3. Explain the use of the cash book, and tell how it is posted.
4. Explain the posting of the journal.
5. Define account, posting, assets, liabilities, inventory.
6. (a) What is the ledger? (b) What is its use?
7. (a) Classify accounts with persons. (b) For what should each kind of personal account be debited and credited?
8. Explain nominal, real, and mixed accounts and give examples of each.
9. (a) What is the object of the trial balance? (b) What does the trial balance prove? (c) Is it an absolute proof? Explain.
10. What is the object of making a six-column statement?
11. Give the rules governing the making of statements.
12. Give two ways of finding the profit on merchandise.
13. How do you find the loss on Expense if there is an inventory? Give your reason.
14. Give two ways of finding the net worth of a business.
15. Explain the reasons for closing the ledger.
16. How do you close the Expense account when there is an inventory?
17. How do you close the Merchandise account when there is an inventory?
18. How do you close the Profit and Loss account?
19. How do you close the Proprietor's account?
20. (a) What is a proof trial balance? (b) Why is it necessary?
21. When should red ink be used in closing?
22. How should each red ink entry be transferred?
23. How should a personal account with the debit side the larger be closed?
24. How should a personal account with the credit side the larger be closed?
25. How should a personal account with one item of $75 on each side be closed?

CHAPTER IX

NOTES RECEIVABLE AND NOTES PAYABLE

In the transactions so far given purchases and sales of merchandise and open accounts have been settled in cash. That is the most common custom in most lines of business, but notes are frequently used in settlement of invoices and accounts. Promises in the form of accepted time drafts are also used for the same purpose. We shall consider here only promissory notes and leave time drafts for a later chapter.

Promissory Notes. A promissory note is an unconditional promise in writing to pay a certain sum of money to the order of another person or to bearer, on demand or at a fixed time.


Milwaukee, Wis., Dec. 28, 19— No. 10

Thirty days after date I promise to pay to the order of C. B. Parker $1275.50

Twelve hundred seventy-five 50/100 Dollars

Payable at National Exchange Bank

Value received with interest at the rate of 6 per cent per annum.

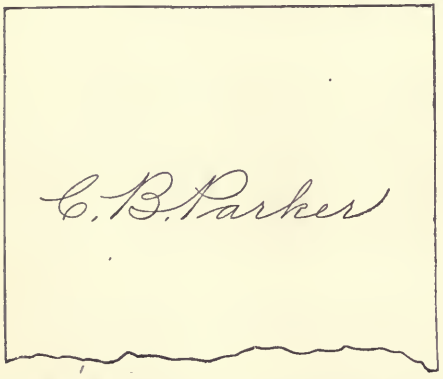
Due Jan. 27, 19— S. D. Gross

Parties. In this promissory note S. D. Gross is the *maker* and C. B. Parker the *payee*. The maker of a promissory note is the person who signs it and by so doing agrees to pay it. The payee of a note is the one in whose favor it is drawn. He may receive payment himself or order its payment to some one else.

Date of Maturity. If the time is expressed in days, the exact time should be counted. If the time is expressed in months, calendar months must be counted. This note made payable *one month after date* would

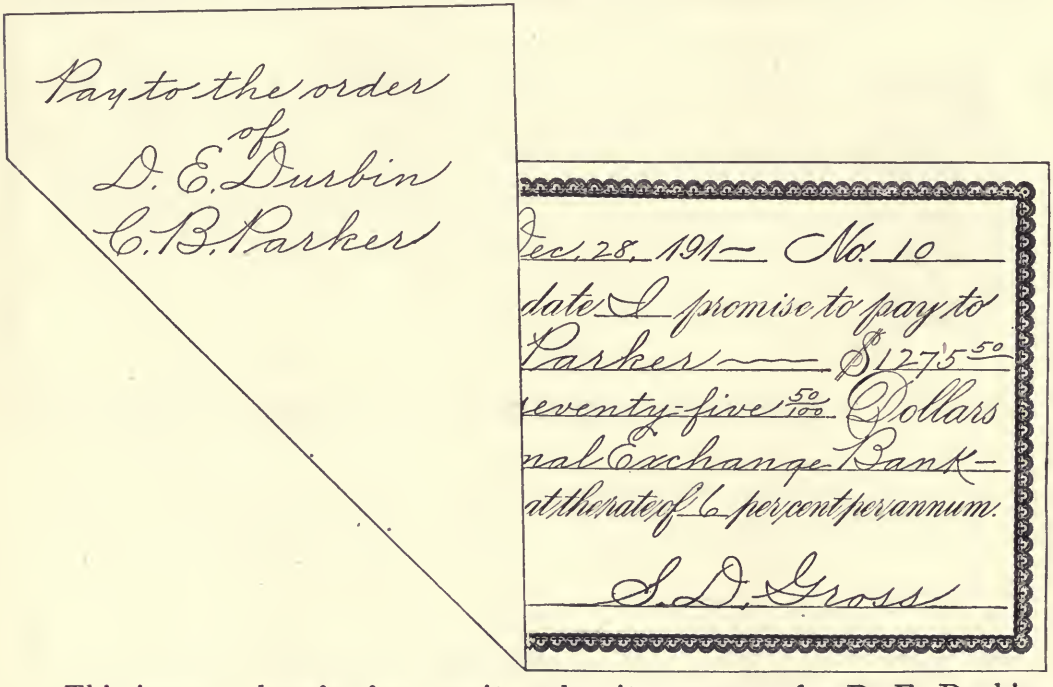
be due January 28. The due date should be found and written in by the maker of the note.

Indorsement. If a note contains the negotiable words *order of, or order, or bearer* and the elements included in the definition of a promissory note, it may be transferred. This transfer must be by indorsement except when it is made payable to a person or bearer. An indorsement is written on the back of the note, on the left hand end. The payee becomes the first indorser and the one to whom he transfers it, the *indorsee.*



Blank Indorsement. If C. B. Parker wishes to transfer this note to D. E. Durbin, he may simply write his name on the back about an inch from the left hand end. This makes it payable to D. E. Durbin or any one else. It is usually a poor form to use in transferring a note as it makes it payable to the bearer.

Special Indorsement. In a special indorsement, the indorser names the person to whom he wishes to transfer the note. A special indorsement by C. B. Parker to D. E. Durbin would be written as follows:


Pay to the order
of
D. E. Durbin
C. B. Parker
Dec. 28, 191— No. 10
date I promise to pay to
Parker — $127.50
seventy-five 50/100 Dollars
nal Exchange Bank —
at the rate of 6 per cent per annum.
S. D. Gross

This is a much safer form as it makes it necessary for D. E. Durbin, the indorsee, to indorse it before any one else can use the note.

Notes Receivable. A note receivable is another's note given to the business.

Rules for Notes Receivable. *Debit* Notes Receivable at the face value for all notes of others received by the business.

Credit Notes Receivable at the face value for all notes of others paid by them and for all notes of others parted with in any other way.

If S. N. Bruer owes the business $175 and gives cash in payment, the debit and credit effect would be

Cash Debit, $175
S. N. Bruer Credit, $175

But if, instead of paying cash, he gives the business his note, a note receivable comes into the business instead of cash. His account must be credited the same as when cash was received. He still owes $175 but he no longer owes it *on account.* His indebtedness is shown in the Notes Receivable account. The journal entry for this transaction would be as follows:

	Notes Receivable	9			
	To S. N. Bruer	Recd. his note at 30 days, on acct.		175 —	175 —

In posting to the ledger account of Notes Receivable, the due date should be recorded in the explanatory column of the Notes Receivable account unless a special book is kept for the purpose of giving details of notes.

When S. N. Bruer pays the note, cash is received and the account of Notes Receivable must be credited, because it is the note that yields the value, not the account.

The entry in the cash book would be:

CASH RECEIPTS

Jan. 8	Notes Rec.	S. N. Bruer's note	175 —	

The Notes Receivable account must show an *asset* if the account does not balance. It should be closed as shown on page 68.

When S. N. Bruer pays his note he should receive his note back canceled. The note should be canceled by writing across the face of the note, *Paid*, the date, and the signature of the person receiving the money.

Notes Receivable

19-						19-					
Jan. 4	Due 1/19	J	3	175 —		Jan. 19		C	4	175 —	
10	" 2/9	J	4	325 —		30		C	6	712 50	
15	" 1/30	J	5	712 50		31	Balance			325 —	
				1212 50						1212 50	
Feb. 1	Balance			325 —							

The method of doing this is shown on the note illustrated on page 65.

Jan. 8 Recd. on this note $100.

If the maker of the note pays only part of the amount that he owes, a receipt should be given him and a statement made on the back of the note without any signature, as in the illustration to the left.

Exercise 16. On journal paper make entries for the following transactions.

November 1. Sold an invoice of goods to C. S. Poe for $375, on account.

4. Received cash of C. S. Poe, on account, $100.

6. Sold an invoice of goods to D. E. Kramer, for $425, on account.

8. Received C. S. Poe's note at 10 days for $175, on account.

9. Received D. E. Kramer's note at 15 days for $425, in full of account.

12. Sold an invoice of goods to B. A. Schwab for $225, and received his note at 15 days, in payment.

Make two entries for this transaction, one for the sale of the goods and the other for the note received.

15. Received C. S. Poe's note at 15 days for $100, in full of account.
18. C. S. Poe paid his note of the 8th, for $175.
20. Sold an invoice of goods to S. N. King for $218, on account.
24. D. E. Kramer paid his note of the 9th, for $425.
25. Received of S. N. King cash, on account, $100.
27. Received of B. A. Schwab cash, for his note of the 12th, $225.
30. C. S. Poe paid his note of the 15th, for $100.

Notes Payable are notes issued by the business which the business must pay.

Rules for Notes Payable. *Debit* Notes Payable at the face value when our notes are paid by the business.

Credit Notes Payable at the face value when our notes are issued by the business.

If the business pays C. S. Kerr $200 on account, the debit and credit effect would be

C. D. Kerr Debit, $200
Cash Credit, $200

If, instead of paying cash, the business gives him a note for $200, the entry would be a credit to Notes Payable instead of to Cash.

JOURNAL

1	C. D. Kerr	9		
	To Notes Payable	Gave my note at 30 days, on acct.	200 —	200 —

When the maker pays his note, Notes Payable must be debited and Cash credited in the Cash Book.

CASH PAYMENTS

Nov. 8	Notes Payable Favor C. D. Kerr #10		200 —

Notes Payable account must show a *liability* if the account does not balance. It should be closed as on page 70.

Notes Payable

19-					19-					
Apr. 27		C	11	212 25	Apr. 6	Due 5/6	J	7	195 —
28		C	11	115 —	12	" 4/27	J	8	212 25
30	Balance			195 =	18	" 4/28	J	8	115 —
				522 25					522 25
					May 1	Balance			195 —

Exercise 17. On journal paper make entries for the following transactions.

October 3. Bought an invoice of goods of J. A. Burk for $260, on account.

5. Gave J. A. Burk my note, payable 20 days after date, for $160, on account.

7. Bought an invoice of goods of C. E. Haws for $385, on account.

9. Bought an invoice of goods of G. R. Rand for $475, and gave my note, payable 10 days after date, in payment.

Make two entries.

10. Paid C. E. Haws cash on account, $150.

14. Bought an invoice of goods of B. E. Bond, on account, $380.

16. Paid J. A. Burk $100 on account.

18. Gave C. E. Haws my note, payable 10 days after date, for $235.

19. Paid G. R. Rand for my note of the 9th, $475.

23. Gave B. E. Bond my note, payable 30 days after date, for $180, on account.

25. Paid J. A. Burk cash for my note of the 5th, $160.

28. Paid C. E. Haws cash for my note of the 18th, $235.

Exercise 18. On journal paper make entries for the following transactions. Do not forget that the explanation of each entry is important.

November 2. Gave S. N. Hammond my note, payable in 30 days, for $375, on account.

4. Received B. C. Chase's note, payable in 15 days, for $250, on account.

5. Gave H. C. Field my note, payable in 30 days, for $185, on account.

7. Gave C. N. Day my note, payable in 10 days, for $413.50, on account.

9. Received S. G. Hoan's note, payable in 15 days, for $95, on account.

12. Bought merchandise of C. D. Traxler amounting to $127.50, and gave my note, payable in two months, in payment.

Make two entries.

14. Received F. A. Frame's note, payable in three months, for $750, on account.

16. Gave G. E. Minster my note, payable in 45 days, for $600, on account.

18. Sold merchandise to S. E. Niles amounting to $247, and received his note, payable in 60 days, in payment.

How many entries should be made? Why?

20. Received H. I. Larson's note, payable in 15 days, for $450, on account.

Exercise 19. Find the date of maturity of each note in Exercise 18, and make entries in a manuscript cash book for the payment of each note.

CHAPTER X

INTEREST AND DISCOUNT ON NOTES

Interest is money paid for the use of money.

When a note contains a promise to pay a certain sum of money with interest at a specified rate or simply with interest, the note is said to bear interest. The sum paid at maturity for the use of the money is interest.

When interest is allowed or paid in advance for the use of money, it is commonly called *discount.* It is just as much interest as if it were paid after one has enjoyed the use of the money.

The 60-Day Method. This method is based on the principle that the

Interest of $1 for a year of	360	days, at the rate of 6%, is	$	.06
Interest of 1 for	60	days, at the rate of 6%, is		.01
Interest of 1 for	6	days, at the rate of 6%, is		.001
Interest of 1 for	600	days, at the rate of 6%, is		.10

This method is an easy one to use because it is on the decimal system. To multiply by .01, point off two places to the left in the principal. To multiply by .001, point off three places to the left in the principal. By .10, one place.

Any number of days may be divided into fractional parts of 600, 60, or 6, or into multiples of them.

For Example:

For 15 days, take $\frac{1}{4}$ of the interest for 60 days.

For 18 days, take 3 times the interest for 6 days.

For 25 days, take $4\frac{1}{6}$ times the interest for 6 days.

For 50 days, take the interest for 30 days ($\frac{1}{2}$ of 60) and for 20 days ($\frac{1}{3}$ of 60).

The interest should always be found for the time at 6% and then at the given rate by adding or subtracting a fractional part.

For Example:

At 5% find the interest at 6% and subtract $\frac{1}{6}$ of it.

At 7% find the interest at 6% and add $\frac{1}{6}$ of it.

At 8% find the interest at 6% and add $\frac{1}{3}$ of it.

At 9% find the interest at 6% and add $\frac{1}{2}$ of it.

At 10% find the interest at 6% and add $\frac{2}{3}$ of it.

Problem: Find the interest of $127.25 for 51 days at 5%.

.12725 Interest for 6 days at 6%
1.018 Interest for 48 days at 6%
.0636 Interest for 3 days at 6%
1.0816 Interest for 51 days at 6%
.1802 Interest for 51 days at 1%
.9014 Interest for 51 days at 5%

The interest is, then, 90¢.

The Cancellation Method is preferred by some. The formula is as follows:

$$\text{Principal} \times \frac{\text{Time in days}}{360} \times \frac{\text{Rate}}{100} = \text{Interest.}$$

If the rate is six per cent, the formula may be contracted to

$$\frac{\text{Principal} \times \text{Time in days}}{6000} = \text{Interest.}$$

$$127.25 \times \frac{51}{360} \times \frac{5}{100} = \frac{10.81625}{12} = .901+ \text{ or } 90¢.$$

In the last chapter, the principle was established that Notes Receivable and Notes Payable must be debited and credited at their face value. This principle is not changed when a note bears interest. Whatever allowance is made for interest must be entered in a separate account, the Interest account.

If C. D. Cook gave his note to the business on January 8, for $375, payable 60 days after date, with interest at 6%, the entry in the journal would be

Notes Receivable, $375
To C. D. Cook, $375

When the note is paid on March 9, the result would be

Cash, $378.75
To Notes Receivable, $375.00
Interest 3.75

As an entry on the Cash Receipts it would be made as follows:

Mar.	9	Notes Receivable	C. D. Cook's note	375	—
	9	Interest	On above, 60 da.	3	75

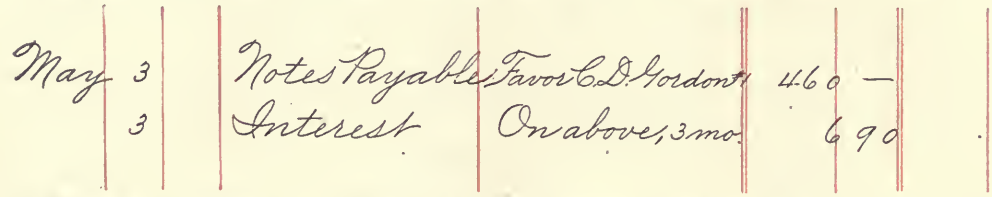
Our note in favor of C. D. Gordon, dated February 3, for three months, for $460, with interest at 6%, would be entered in the journal, on February 3, as follows:

C. D. Gordon, $460
To Notes Payable, $460

When the business pays this note on May 3, the effect would be as follows:

Notes Payable, $460.00
Interest 6.90
To Cash $466.90

As an entry on the Cash Payments, it would be made as follows:



Rule for Interest. *Debit* the Interest account when the business allows it to others.

Credit the Interest account when others allow it to the business.

Exercise 20. Enter the following transactions on journal paper. The transactions may be used as an oral exercise before writing them.

1. May 1. Received C. E. Bowen's note for $720, payable in 10 days, with interest at 6%.
2. 3. Gave C. I. Bell my note for $240, payable in 15 days, with interest at 6%.
3. 5. Gave W. A. Worth my note for $900, payable in 15 days, with interest at 6%.
4. 11. C. E. Bowen paid his note in transaction 1, with interest, $1.20.
5. 12. Received F. A. Hunt's note for $75, payable in 10 days, with interest at 6%.
6. 15. S. D. Dale gave the business his note for $480, payable in 15 days, with interest at 8%.
7. 18. Paid my note in transaction 2 and interest, 60¢.
8. 20. Paid my note in transaction 3 and interest.
9. 22. F. A. Hunt paid his note in transaction 5, with interest.
10. 30. Received payment of S. D. Dale's note and interest in transaction 6.

Others' Notes Discounted. To discount a note at a bank or with a broker is to sell the note and pay in advance for the use of the money.

It is, in effect, borrowing the face value of the note for the unexpired time of the note. The business receives the use of the money for the time from the date of discount to the date of maturity. This is called the *term of discount.* It is counted in exact days.

Problem: S. N. Gray's note for $625, dated May 8, payable in 60 days, is discounted at the bank on June 16 at 6%. The value of the note would be found as follows:

Date of Maturity, July 7.

Term of discount, from June 16 to July 7, is 21 days.

The discount (interest in advance) of $625, for 21 days at 6% is $2.19. $625 minus $2.19 is $622.81, the proceeds of the note. The bank will deduct the $2.19 as interest on the $625 for 21 days and give the difference, $622.81, to the person discounting the note.

The effect on the accounts would be as follows:

Cash	$622.81	
Interest	2.19	
To Notes Receivable		$625.00

Since discount on a note is interest on the note paid in advance, but one account called Interest will be kept for both interest and discount.

In entering it in the cash book, the entry must be made on the theory that $625 was received for the face of the note and $2.19 paid for the use of the money. The entry would be as follows:

CASH RECEIPTS

June	16	Notes Receivable S. N. Gray's note disc.			625	—		

CASH PAYMENTS

June	16	Interest Disc. 21 da. S. N. Gray's note			2	19		

Our Notes Discounted. The business may borrow money from a bank or a broker on its own note. A note is issued and the interest paid in advance by subtracting the discount for the time of the note from the face of the note.

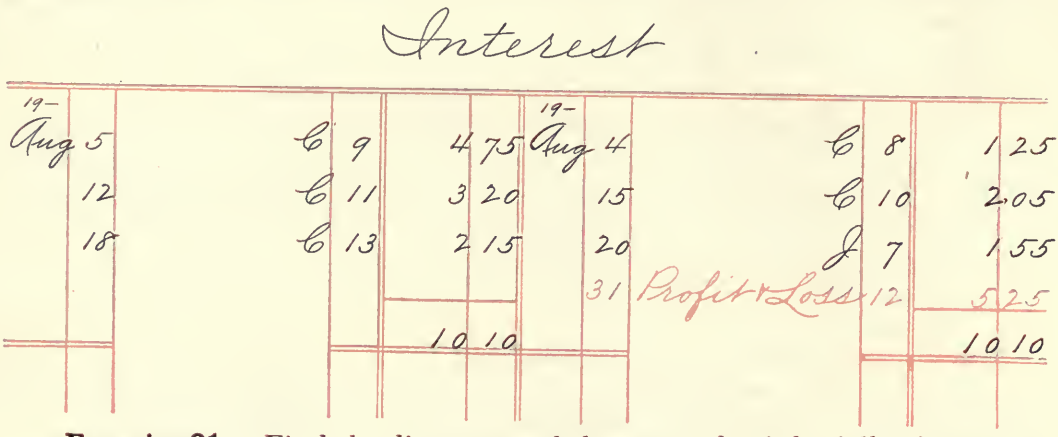
Our note, payable in 60 days, for $225, discounted at the bank at 6% would be entered on the Cash Receipts as a credit to Notes Payable for $225 and on the Cash Payments as a debit to Interest for $2.25.

Rule for Discount on Notes. *Debit* Interest for all discount allowed by the business on our notes and on others' notes.

Credit Interest for all discount allowed to the business on our notes and on others' notes.

Interest account is a nominal account and shows a profit if the credit

side is the larger and a loss if the debit side is the larger. It should be closed as follows:



Exercise 21. Find the discount and the proceeds of the following notes:

	FACE	DATE	TIME	DATE OF DISCOUNT	RATE
1.	$650.00	Sept. 4	60 da.	October 9	6%
2.	315.25	May 3	3 mo.	May 17	6%
3.	205.00	July 6	30 da.	July 20	5%
4.	130.20	Dec. 31	2 mo.	Jan. 24	4%
5.	930.00	June 7	30 da.	July 1	7%
6.	815.40	Aug. 1	60 da.	Aug. 1	8%
7.	70.00	Nov. 15	15 da.	Nov. 25	6%
8.	1225.00	June 17	6 mo.	July 8	6%
9.	450.00	March 8	3 mo.	Mar. 28	7%
10.	115.00	April 30	30 da.	May 3	6%

Exercise 22. On journal paper enter the following transactions in a cash book.

June 2. Received payment of S. N. Gordon's note for $325, and interest for 30 days at 6%.

5. Paid note favor C. E. Betts for $415, and interest for 90 days at 6%.

9. Discounted at the bank at 6%, B. E. Bond's note for $350, dated May 31, payable 30 days after date.

12. Paid note favor C. N. Briggs, for $265, and interest for 45 days at 6%.

15. Discounted at the bank at 6%, our note for $1500, payable 60 days after June 15.

20. Discounted at the bank at 6%, C. N. Good's note for $97.50, dated May 27, payable 60 days after date.

24. Received payment of B. E. Reed's note for $450.90, and interest for three months at 5%.

27. Discounted at the bank at 7%, our note for $1750, payable 30 days after June 27.

28. By agreement with the payee of our note, C. S. Boden, we prepay our note for $250, dated June 15, for 30 days, less discount for the unexpired time at 6%.

What account should be debited for the face value of the note?

What account should be credited for the discount?

June 30. Paid C. D. Griffin the quarterly interest on a note for $1825 in his favor, dated March 30, payable one year after date, with interest at 6% per annum, payable quarterly.

CHAPTER XI

THE SALES BOOK AND THE PURCHASE BOOK

Sales Book

May 1, 19—

3	N. C. Evans, 1270 North Ave.				
	Acct. 30 days				
	50 bu. Potatoes	.75	37	50	
	10 bx. Lemons	3.45	34	50	72 —
	2				
4	C. L. Anderson, 846 Wells St.				
	Acct. 10 days				
	5 bx. Oranges	2.75	13	75	
	10 bbl. Flour	4.75	47	50	
	5 bbl. Apples	4.80	24	—	85 25
	3				
r	Cash Sales				47 35
	5				
3	D. E. Bosshard, 412-12th St.				
	Acct. 30 days				
	15 bbl. Salt	1.70	25	50	
	10 bbl. Sugar 3250#	5¢	162	50	188 —
	Forward				392 60

The use of the journal as a book of entry for sales of merchandise is not desirable if the business makes many sales on account. The work of posting is too great and it is too difficult to obtain information concerning sales, when recorded in the journal.

The Sales Book should contain entries for all sales made by the business so as to show the volume of sales for any month.

In the sales book, the first column is used to record the items sold and the second for the amount of each invoice. The form here illustrated represents a page of a sales book used by a retail business, or one doing mainly a retail business with some sales at wholesale.

In each of these entries Merchandise is understood to be credited without writing it down. All the sales on account were formerly entered in the journal as a debit to the account of the customer and a credit to Merchandise. They are now entered in the sales book *only*.

As the entry is now made, it is equivalent to a journal entry with several debits and one credit, as follows:

H. C. Evans,	$ 72.00	
C. L. Anderson,	85.25	
D. E. Bosshard,	188.00	
To Merchandise,		$345.25.

The cash sales are entered in the sales book so that the sales book will show the total sales for the month. They must also be entered in the cash book to show that the cash was received. The entry in the sales book automatically credits Merchandise. The entry in the cash book automatically debits Cash. Each entry is checked (√) in the folio column so as to show that neither item is to be posted.

In a retail store, small cash sales are entered from the cash register or from the sales tickets in total at the end of the day. The items sold are rarely recorded in the sales book. The cash book entry would be made as follows:

CASH RECEIPTS

May	3	√	Merchandise	Cash sales	47	35	

The sales book entry has the effect of crediting Merchandise. The cash book entry has the effect of debiting Cash. The Cash is, therefore, posted in total from the cash book and the Merchandise in total from the sales book.

Posting the Sales Book. Each customer is debited for the amount of his invoice and Merchandise is credited for the total of the sales book at the end of the month. All cash sales in a retail business are checked, and are not posted.

The entries for Set IV will be made like the entries just illustrated.

In a wholesale or jobbing business, there are few, if any, small cash sales. A sale for cash may mean payment in from five to ten days. In that case, the sale is treated the same as a sale on account. It is entered in the sales book when the goods are sold and the customer's account in the ledger debited. When he makes payment, his account in the ledger is credited from the cash book.

But if a cash sale is made to some one not a regular customer, and the cash received with the order, the entry is made in the sales book in the usual way and the entry checked in the folio column. It is also entered in the cash book on the Receipts side and checked. No ledger account is opened up but the debit to the customer's account in the sales book is offset by the credit to his account in the cash book. This method of using the sales book in a wholesale or jobbing business is illustrated in the page of a sales book shown below. The entries for Set V will be made in this way.

SALES BOOK

June 27, 19—

5	Karns & Co. Forward			79	85	1675	60
	10 Oak Sideboards	35—	350	—			
	5 Oak Dining Tables	27.50	137	50		567	35
	28						
✓	H. A. Harrison, Detroit, Mich.						
	Cash						
	5 Brass Bedsteads	28—	140	—			
	12 Cotton Mattresses	9.25	111	—		251	—
	30						
7	C. S. Brake, La Crosse, Wis.						
	2/10, net 30 days						
	8 Oak Library Tables	18.75	150	—			
	5 Turkish Rockers	32—	160	—			
	8 Music Cabinets	10.50	84	—		394	—
2	Mdse. Cr., June 30					2887	95

The Purchase Book is another book that takes a number of entries out of the journal and by so doing saves work and classifies entries.

All purchases of merchandise made by the business should be entered in the purchase book, so that the total purchases will be shown in one book at the end of the month. Purchases on account are entered in the purchase book *only*. Every entry is a credit to the account of the person from whom the goods are bought and Merchandise is understood to be debited. The Merchandise is posted in total only. Cash purchases should be entered in the purchase book and on the Payments side of the cash book and checked in both places. The principle is exactly the same as applied to sales, for both retail and wholesale businesses.

The items are not entered in the purchase book because when the business buys goods it receives an invoice, which is filed. To this, one can refer for the items purchased. The purchase book of a wholesale business is illustrated here.

PURCHASE BOOK

DATE		F	NAMES AND ADDRESSES	INV. No.	TERMS	AMOUNT
Apr.	3	7	C. L. Loring, Springfield, Ill.	1	Acct. 10 da.	212 75
	8	6	Nord & Co., Grand Rapids, Mich.	2	2/10, net 30 da.	365 10
	12	7	D. L. Charles, Toledo, O.	3	Note, 15 da.	137 50
	25	✓	G. A. Clark, Des Moines, Iowa	4	Cash	68 15
	30	2	Mdse. Dr.			783 50

Posting. Post each purchase on account to the credit of the account named. Check each purchase for which cash was paid, unless a ledger account is to be opened up for the creditor. Post the total to the debit of Merchandise monthly.

The Journal. By the elimination of all purchases and sales of merchandise from the journal, it becomes a subordinate book. In it are entered, in the introductory work, chiefly the giving and receiving of notes, entries to adjust mistakes, and memorandums of anything important enough to require a permanent record.

Exercise 23. Enter the purchases and sales of Set III on sheets of paper used as a purchase book and sales book respectively. Check cash sales and cash purchases.

Close each book.

Exercise 24. On a sheet of ledger paper open the following accounts taken from a ledger, and a Profit and Loss account.

Close the ledger, May 31. You can take no proof trial balance as only part of the ledger accounts are given.

Merchandise inventory, $352.15.

Expense inventory, $5.75.

D. E. Mitchell

19–						19–					
May	31	C	9	150	–	May	1	C	8	2200	–

Merchandise

19–						19–					
May	31	P	5	1675	80	May	31	S	12	1437	25

Expense

19–					
May	1	C	7	35	–
	8	C	7	10	25
	15	C	7	7	40
	31	C	9	30	–

Interest

19–					19–				
May	3	C	7	325	May	8	C	8	250
	18	C	9	150		12	C	8	115
						29	C	10	535

REVIEW QUESTIONS

1. Analyze each of the following accounts by telling for what each is debited, for what credited, what the difference shows, and why: (a) Cash; (b) Merchandise; (c) Expense; (d) a customer's account; (e) a creditor's account; (f) the proprietor's account.

2. What is a promissory note?

3. Name the parties to a promissory note.

4. Name two kinds of indorsements and explain each.

5. How should a promissory note be canceled?

6. (a) Give the rules for debiting and crediting Notes Receivable. (b) What does the Notes Receivable account show in the statement, and why?

7. (a) Give the rules for debiting and crediting Notes Payable. (b) What does the Notes Payable account show in the statement, and why?

8. How should a partial payment on a note be recorded on the note?

9. What is the difference between interest on a note and discount on a note?

10. How is discount on a note computed?

11. What entries should be made when others pay their notes with interest?

12. What entries should be made when we pay our notes with interest?

13. What entries should be made when others' notes are discounted?

14. What entries should be made when our notes are discounted?

15. Give the rules for debiting and crediting interest.

16. Give the rules for debiting and crediting discount.

17. How do you close the Interest account when the debit side is the larger?

18. (a) Why should no erasures be made on the books? (b) How should corrections be made?

19. Name three accounts that must have debit balances, unless they balance, and give the reason why.

20. Name two accounts that must have credit balances, unless they balance, and give the reason why.

21. How should the Expense account be closed if there is an inventory?

22. How should the Notes Receivable account be closed, if there are notes unpaid?

23. How should the Notes Payable account be closed if there are notes unpaid?

24. What is the object of the sales book? How is it posted?

25. What is the object of the purchase book? How is it posted?

CHAPTER XII

WHOLESALE AND RETAIL PRODUCE AND FRUITS

SET IV

The work of this set covers a period of two months, April and May. The books will be posted at the end of April and a trial balance taken. At the end of May, a trial balance will be taken, statements will be made, and the books closed.

The following books of entry will be used: the *cash book*, the *sales book*, the *purchase book*, and the *journal*.

In using the new books of entry, the sales book and the purchase book, care should be taken to follow the model forms given in the last chapter.

Your teacher will direct you as to whether to enter your transactions in the blank books or on loose journal sheets first.

Take special pains to do neat, accurate work. Do not erase. Do not mark over words or figures.

TRANSACTIONS FOR APRIL

April 1. The Student begins business investing cash, $1000.
Make the memorandum and the entry.

2. Pay rent of store for one month, $35.

3. Buy of J. C. Perry, on account:
   20 bbl. Apples at $3.65
   15 bunches Bananas at $1.65
   500 bu. Potatoes at 58¢

Enter in the purchase book only.
Do not enter the items *bought*.

4. Pay the Miller Book Co. for office books, $11.75.

6. Sell C. N. Werner on account, 10 days:
   5 bunches Bananas at $2.35
   125 bu. Potatoes at 69¢

Enter in the sales book only.
The items *sold* must always be entered.

April 7. Buy of Farr Produce Co., on account:
25 bx. Oranges at $2.60
12 bx. Lemons at $3.25

8. Sell T. S. Merton, on account:
200 bu. Potatoes at 71¢
5 bbl. Apples at $4.25

9. Pay the Phoenix Sign Co. $12.75 for painting a sign for the business.

10. Buy of C. S. Parks, on account:
15 bbl. Cabbage at $2.05
150 bu. Onions at $1.15
10 bbl. Sweet Potatoes at $3.25

11. Pay J. C. Perry, on account, $250.

11. Cash sales for the week, $35.80.

Cash sales are given weekly to avoid a large number of entries of the same kind.

Enter in the sales book and in the cash book and check in both places.

13. Receive of C. N. Werner, on account, $50.

14. Sell D. E. Howe, on account, 30 days:
10 bx. Oranges at $3.25
5 bx. Lemons at $3.65

15. Receive of C. N. Werner $48, for the balance of the invoice of the 6th.

Have you explained this entry in the explanation column of the cash book? Do not neglect proper explanations. Books of entry are oftentimes worthless as evidence if the explanations are not properly recorded.

16. Sell J. H. Harris, on account:
10 bbl. Apples at $4.35
150 bu. Potatoes at 72¢
3 bbl. Sweet Potatoes at $3.85

17. Pay the Western Coal Co. $15.60 for 3 tons coal at $5.20.

18. Cash sales for the week, $42.25.

Have you made two entries?

20. Pay C. S. Parks, on account, $150.

21. Sell C. N. Werner, on account, 10 days:
12 bx. Oranges at $3.20
5 bbl. Apples at $4.30
2 bx. Lemons at $3.75

22. Buy of the Farr Produce Co., on account:
30 bx. Oranges at $2.65
15 bx. Lemons at $3.20
15 bbl. Apples at $3.75

23. Receive of T. S. Merton, on account, $75.

24. Give Farr Produce Co. your note at 15 days, for invoice of the 7th, $104.

April 25. Cash sales for the week, $61.15.
27. Receive of J. H. Harris, on account, $75.
28. Receive of T. S. Merton his note at 10 days, with interest at 6%, for $50, on account.
29. Sell G. C. Jacks, on account:
5 bbl. Cabbage at $2.45
50 bu. Onions at $1.65
5 bbl. Sweet Potatoes at $3.90
29. Pay J. C. Perry, on account, $100.
30. Cash sales for four days, $31.60.
30. Pay clerk's salary for the month, $25.

CLOSING WORK

1. Balance the cash book.
2. Close the sales book like the model given on page 80.
3. Close the purchase book like the model given on page 81.
4. Open ledger accounts, three on a page, in the following order:
Student
Merchandise
Expense
Interest (To be used in May)
Cash
Notes Receivable
Accounts with customers, in the order that they appear in the sales book
Notes Payable
Accounts with creditors, in the order that they appear in the purchase book
Profit and Loss
5. Post the sales book. Do not post the entries that are checked. Put *S* in the explanatory column of the ledger and the page of the sales book in the folio column for each entry posted. Put the page of the ledger in the folio column of the sales book. The total of the sales book must be posted and the page put in the folio column.
6. Post the purchase book. Put *P* in the explanatory column of the ledger and the page of the purchase book in the folio column for each entry posted. Put the page of the ledger in the folio column of the purchase book. Post the total of the purchase book and put the page of the ledger in the folio column.
7. Post the cash book in the usual way. Do not forget to post the total of each side to the Cash account in the ledger.
8. Post the journal in the usual way. The due date of each note should be recorded in the explanatory column of the Notes Receivable and Notes Payable accounts respectively.
9. Foot the ledger accounts in pencil.

10. Take a trial balance of differences. Present your trial balance and your books to your teacher for approval.

11. Copy the trial balance in the blank books.

TRANSACTIONS FOR MAY

Directions. Use the same pages of the cash book as for April. The balance of cash for April must, of course, be brought down in the last column. Use the same page of the purchase book. Use new pages for the sales book and journal respectively.

May 1. Pay rent of store for May, $35.

2. Buy of C. D. Riemer, on account:
250 bu. Potatoes at 61¢
25 bbl. Apples at $3.60

2. Cash sales for two days, $46.35.

4. Sell T. S. Merton, on account:
5 bbl. Cabbage at $2.40
40 bu. Onions at $1.70

5. D. E. Howe pays his invoice of April 14, $50.75.

6. Pay Farr Produce Co., on account, $150.

7. Sell L. A. Laabs, on account:
8 bbl. Apples at $4.15
75 bu. Potatoes at 73¢

8. Receive of T. S. Merton $50.08 in payment of his note of April 28, and interest.

9. Cash sales for the week, $67.75.

9. Pay your note favor Farr Produce Co., $104.

11. Buy of C. S. Parks, on account:
12 bunches Bananas at $1.70
15 bx. Lemons at $3.20

12. Sell D. E. Howe, on account:
5 bx. Lemons at $3.65
75 bu. Potatoes at 74¢
50 bu. Onions at $1.45

13. Pay J. C. Perry in full for his April account, $37.75.

This amount is found by taking the difference between the two sides of his account in the ledger.

14. Receive of G. C. Jacks his note at 10 days, with interest at 6%, for $114.25, for invoice of April 29.

Have you made a complete explanation in your journal entry?

15. Buy of J. C. Perry, on account:
500 bu. Potatoes at 59¢

16. Cash sales for the week, $71.80.

May 18. Sell C. N. Werner, on account, 30 days:
5 bx. Lemons at $3.85
12 bbl. Apples at $4.25

19. Give your note at 10 days with interest at 6% to J. C. Perry, on account, $200.

20. J. H. Harris, pays $88.05 in full for his April account. How is this amount found?

20. Sell J. H. Harris, on account:
150 bu. Potatoes at 75¢

21. Sell L. A. Laabs, on account:
5 bx. Lemons at $3.85
125 bu. Potatoes at 75¢

22. Pay gas bill for April, $7.65.

23. Cash sales for the week, $53.45.

25. Receive of G. C. Jacks $114.44 to pay his note of the 14th and interest.

How much is received in payment of the note?
How much is in payment of interest?
Make a separate entry for each.

26. Buy of C. S. Parks, on account:
20 bbl. Apples at $3.65
15 bx. Oranges at $2.55
15 bx. Lemons at $3.25

27. Receive of T. S. Merton, in full of account, $118.25.

28. Pay C. D. Riemer, on account, $150.

28. Student withdraws $75 for personal use.

29. Sell G. C. Jacks, on his note at 30 days, with interest at 6%:
15 bbl. Apples at $4.40
8 bx. Oranges at $3.15

Receive the note in payment.
Make two entries.

30. Pay clerk's salary, $30.

30. Pay the Hassler Transfer Co. $47.25 for making deliveries.

30. Cash sales for the week, $64.40.

CLOSING WORK

1. Close each of the books of entry.
2. Post the sales book, purchase book, cash book, and journal. You will have to open up the new accounts after Profit and Loss.
3. Take a trial balance of differences.
4. Inventories, May 31, 19—:
Merchandise, per schedule on file, $205.45
Expense: 1 ton coal $5.20

5. Make a Statement of Profit and Loss.
   Is Interest a profit or a loss? Why?
6. Make a Statement of Assets and Liabilities.
7. Close the following accounts.
   a) Merchandise
   b) Expense
   c) Interest
   d) Profit and Loss
   e) Student's account
8. Close all other accounts that do not balance by *Balance*. Rule those that balance.
9. Take a proof trial balance.

CHAPTER XIII

DISCOUNT ON PURCHASES AND ON SALES

Goods are frequently bought and sold on such terms as 3/5, 2/10, n/30. These terms mean that the buyer may pay the invoice at any time within 5 days from the date of the invoice and deduct 3%, or at any time between 5 and 10 days after the date of the invoice and deduct 2%; or pay the full amount of the invoice within 30 days. If payment is made on the fifth day by mailing the check the 3% is allowed, or if the check is mailed on the tenth day 2% is allowed. Companies may in their terms require the payment to reach them within the five days or ten days, although this is rarely done.

When goods are sold on terms such as these the discount is not deducted on the invoice or before making the entry, but the full amount of the invoice is charged.

If B. E. Beech sold goods on March 8, amounting to $57.75, to F. A. Kagy, on the terms, 2/10, n/30, F. A. Kagy would be debited for the amount of the invoice, $57.75, in the sales book.

If F. A. Kagy pays his invoice on March 16, he may deduct 2% before making the remittance. Cash amounting to $56.59 will pay an account amounting to $57.75. The buyer, F. A. Kagy, must be credited for the full amount of the invoice charged to him when he made the purchase, $57.75. Cash cannot be debited for any more than the cash received, $56.59. The discount, $1.16, must be debited to Merchandise Discount to show the allowance made to the buyer.

As an entry in the cash book, the entry must be made on the theory that the buyer paid the amount of the invoice and that the business paid him back the amount of the discount.

On the books of the seller, B. E. Beech, the entry would be made as follows:

CASH RECEIPTS

Mar. 16	F. A. Kagy	Inv. of the 8th, less 2%	57	75

CASH PAYMENTS

Mar. 16	Mdse. Discount 2% on inv. to F. A. Kagy		1 16

On the books of the buyer, F. A. Kagy, the entry would be made as follows:

CASH PAYMENTS

Mar. 15	B. E. Beech	Inv. of the 8th, less 2%	57 75

CASH RECEIPTS

Mar. 15	Mdse. Discount 2% on B. E. Beech's inv.		1 16

Rule. *Debit* Merchandise Discount for all discount allowed to others on invoices of merchandise.

Credit Merchandise Discount for all discount allowed to the business on invoices of merchandise.

Merchandise Discount is a nominal account. The debit side shows what the business has lost by allowing discount; the credit side shows what the business has gained by paying invoices less discount. The difference must be a loss if the debit side is the larger and a profit if the credit side is the larger.

Merchandise Discount is closed in the same manner as Interest by entering the difference between the two sides on the smaller side. If the debit is the larger, *Profit and Loss* in red ink is entered on the credit side and transferred to the opposite, debit side, of the Profit and Loss account in black ink. If the credit is the larger, *Profit and Loss* in red ink is entered on the debit side and transferred to the opposite, credit side, of the Profit and Loss account in black ink.

Exercise 25. On journal paper make entries for the following transactions in journal form. Make the entries for the payment of invoices less discount as compound journal entries in the following form:

Cash	$343	
Mdse. Discount	7	
To W. L. Mann		$350

Then enter the cash transactions in the cash book in the way they should be made in your books.

May 1. Bought an invoice of goods of J. A. Jordan on the terms, 2/10, n/30, for $525.

8. Sold an invoice of goods to B. C. Case on the terms, 3/5, 2/10, n/30, for $280.
11. Paid J. A. Jordan for invoice of the 1st, less $10.50 discount.
12. Bought an invoice of goods of H. A. Dalton on the terms, 1/10, n/30, for $625.
13. Received of B. C. Case cash for invoice of the 8th, less discount.
18. Bought an invoice of goods of L. M. Myers on the terms, 2/10, n/30, for $815.
22. Paid H. A. Dalton for invoice of the 12th, less discount.
24. Sold an invoice of goods to C. S. Schwartz on the terms, 2/5, 1/10, n/30, for $235.
26. Paid L. M. Myers for invoice of the 18th, less discount.
28. Received of C. S. Schwartz cash for invoice of the 24th, less discount.

Exercise 26. On journal paper enter the following transactions, using a cash book, journal, sales book, and purchase book.

October 1. S. B. Post invested cash, $1800, in the business.
3. Bought an invoice of goods of H. E. Steen, on account, 20 days, for $278.25.
4. Paid rent of store for one month, $40.
6. Sold an invoice of goods to B. C. Gradin on the terms 2/10, n/30, for $167.50.
7. Paid for office books and stationery, $12.85.
8. Bought an invoice of goods of S. N. Jones amounting to $380.75, and gave my note at 15 days, with interest at 6%, in payment.
10. Sold an invoice of goods to D. E. Darst on the terms, 3/10, n/30, for $112.80.
12. Bought an invoice of goods of D. E. Closs for cash, $397.85.
13. Gave H. E. Steen my note at 15 days, for $278.25, with interest at 6%, for invoice of the 3d.
14. Sold an invoice of goods to C. E. Wells for $132.50, on account.
15. Received cash, $164.15, for an invoice of goods sold to B. C. Gradin on the 6th, less $3.35 discount.
18. Bought an invoice of goods of C. N. Mills on the terms, 2/10, n/30, for $136.75.
20. Received cash of D. E. Darst for the invoice sold him on the 10th, less discount, $3.38.
21. Sold B. C. Gradin an invoice of goods, on account, for $171.25, and received his note at 30 days, for $100 in part payment.

24. Paid my note of the 8th, favor S. N. Jones, and interest.

This note was due on the 23d, which was Sunday. Notes due on Sunday may be paid on the next business day in most states.

25. Sold an invoice of goods to S. N. Bond, on account, 30 days, for $178.95.
26. Bought an invoice of goods of D. E. Closs, on the terms, 3/5, 2/10, n/30, for $127.25.
27. Paid C. N. Mills cash for invoice of the 18th, less discount.
28. Paid my note of the 13th, favor H. E. Steen, with interest.
29. B. C. Gradin gave his note at 30 days for $50,on account.
31. Paid D. E. Closs cash for invoice of the 26th, less discount.

1. Open ledger accounts on ledger paper, putting four accounts on a page.
2. Post the entries.
3. Take a trial balance.
4. Make a statement of Profit and Loss. Inventory of merchandise, $632.50.
5. Make a statement of Assets and Liabilities.
6. Close the ledger.
7. Make a proof trial balance.

CHAPTER XIV

THE BANK ACCOUNT

Modern business is carried on largely without the use of actual money. Not only has business become a credit business but payments are made by means of instruments of credit. A bank is a credit institution.

A large part of the payments made in the wholesale and jobbing trade are by means of orders on banks. A smaller per cent of payments in the retail trade are made in the same way.

An order on a bank is nothing more than a transfer of part of one person's credit at the bank to some one else. It is called a *check.*

Chas. Graham has an account at the bank. He owes James Paxton. He orders the bank in writing to pay the amount to James Paxton. By doing this the bank credit is transferred from Chas. Graham to James Paxton.

Advantages of a Bank Account. There are many advantages derived from having a commercial deposit in a bank, but the chief ones are as follows:

1. A bank account makes it possible for a business to keep its funds in a safe place and to draw them out at any time.

2. It enables a business to pay its bills by means of checks.

Checks are desirable for the following reasons:

a) Payment by check is a much safer method than payment in money.

b) Canceled checks are returned to the depositor at the end of each month. They thus serve as receipts, as the name of the party to whom payment has been made must be indorsed on it before the check can be cashed.

c) Checks furnish the best data from which to make the entries and prove up the cash.

3. A bank is the best medium through which checks, notes, and drafts may be collected for a depositor.

4. A good bank account gives standing to a business that will assist very much in obtaining credit and in borrowing money.

How to Open a Bank Account. Many of the smaller banks will open commercial or checking accounts with any one that makes a reasonable deposit. But the larger banks insist on an introduction from some one

known to the bank. They also insist on an opening deposit of a certain sum and that the depositor maintain at all times that sum, or more, in his account. The details of opening an account are usually attended to by an assistant cashier of the bank.

Signature Card. After these formalities have been completed a signature card must be filled in. The depositor should sign his name on this card just as he expects to sign it on checks. The following is a common form of a signature card:

SIGNATURE CARD

National Exchange Bank

AUTHORIZED SIGNATURE OF

Name George E. Williams

Home Address 1015 North Ave.

Business Address 426 Twelfth St.

Business Retail Grocery.

Date Nov. 15, 19–

Remarks

This signature card is a valuable card and is usually kept on file by the paying teller so that he may consult it in cases of forgery or of doubtful signature.

How to Make a Deposit. On making a deposit, each depositor should make out a deposit ticket furnished by the bank. This ticket contains details of the deposit and a place for any charges on out-of-town checks deposited. A simple form to be used in the practice work is as shown on page 96.

Deposit Ticket. The papers deposited may be checks on the bank in which the deposit is made, checks on other banks of the same city or on banks of other cities, express money orders, postal money orders, or bank exchange. (Bank exchange, or a bank draft, is an order of one bank on a bank of New York, Chicago or some other large city. It is everywhere accepted as cash.) For the convenience of banks the deposit ticket is frequently printed so as best to give this information. These are in many different forms. A form used by many banks is as shown on page 97.

The Pass Book. The deposit ticket, with the money and checks, is handed to the receiving teller. He counts the money and checks the correctness of the checks and of the total. He then enters the amount of the deposit in the pass book as shown on page 96.

Deposit Ticket

National Exchange Bank
OF MILWAUKEE

DEPOSITED FOR ACCOUNT OF
George E. Williams
Dec. 5, 19—

PLEASE LIST CHECKS SEPARATELY AND SEE THAT THEY ARE PROPERLY INDORSED

Gold		
Silver	5	—
Currency	50	—
Checks	117	80
	68	75
N. Y. draft	125	30
	366	85
Less exchange		15
	366	70

This entry is a receipt for the money and checks deposited and should be examined by the depositor before leaving the bank.

Should the depositor forget his pass book, he should make out two deposit tickets, one of which the receiving teller will stamp *Duplicate*, sign his name or initials, and return to the depositor. This duplicate should be taken to the bank when the next deposit is made and the deposit entered in the pass book.

The Check Book. A bank will pay out money from a depositor's account only on a written order. A *check* is a written order on a bank to pay a certain sum of money to the order of a third person or to bearer.

Each bank furnishes its depositors with a book containing stubs, with checks attached by a perforation, so that they can easily be torn out. This is called a check book.

Pass Book Entry

Dec.	5	Deposit	366	70

Each depositor should keep his account with the bank in such a way that he may know at any time just how much he has on deposit. The purpose of the stub from which the check is detached is to show a detailed memorandum of the payment, and to keep the account with the bank. For a small business or for the private individual, the best method is to add the amount of each deposit made and to subtract the amount of each check drawn. This method is illustrated in the page of a two-on check book shown on pages 98 and 99. Another method of keeping the bank account, preferred by many accountants, is illustrated on page i of the appendix.

The back of preceding check stubs opposite should be used for details of deposits, collections, and charges, if the items are not great in number. The back of the check stub opposite to where the deposit is added should show the details of the deposit. (See illustration on page 100)

Things to be Observed in Writing Checks:

1. Always fill in the check stub first.
2. Do not leave blank spaces, but fill them in with a wavy line.
3. The amount should always be written close to the dollar sign.
4. If there are no cents in the amount, it should be shown by filling in two ciphers.
5. The amount in words should begin to the extreme left of the line.
6. The signature should always be the same.

National Exchange Bank
OF MILWAUKEE

DEPOSITED FOR ACCOUNT OF

Carter Mfg. Co.

Dec. 15, 19

PLEASE LIST CHECKS SEPARATELY

Milwaukee Banks	Checks on Milwaukee		Outside Checks	
First Nat'l	175	80	212	60
Marine Nat'l	45	75	36	85
Wis. Nat'l	16	30	42	95
Germania Nat'l	64	25	292	40
	302	10		

Gold		20	—
Silver		5	—
Currency		15	—
Checks on Milwaukee		302	10
Outside Checks		292	40
TOTAL		634	50
Less Exchange			30
		634	20

7. No erasures or alterations should be permitted on checks. In a small business where the proprietor signs all checks, the best plan to follow is to destroy all imperfect checks and take one out of the back part of the check book and rewrite. This plan should be followed in your practice work.

In a business where the checks are signed by an agent such as a bookkeeper, cashier, or treasurer, no imperfect or incorrect checks should be destroyed. They should be marked or stamped *Void* and attached to the stub so as to show an auditor what became of that particular check number.

Indorsements. Checks may be indorsed in the same way as notes. The special indorsement is the one most commonly used. It should always be used if a check is to be sent through the mail. A blank indorsement may be used if the check is to be deposited at the bank at once, otherwise, a special indorsement is better.

Deposit, Jan. 1, 19-	5000	—
No. 1		
Date Jan. 2, 19-		
To C. D. Griffin		
For Rent of store to 2/1		
Discount		
Amount	50	—
	4950	
Deposit, Jan. 10, 19-	345	75
No. 2	5295	75
Date Jan. 15, 19-		
To G. L. Lake & Co.		
For Inv. of the 5th, $686.50		
Discount 2% 13.73		
Amount	672	77
Forward	4622	98

The Bank's Statement of Account. At the end of each month the bank returns to the depositor his canceled checks and a statement of his account for the month. This statement may be in any one of a number of forms. Some banks simply list the amounts on an adding machine slip and return this slip with the checks to the depositor. It shows the deposits, the checks, and the balance.

Other banks list the checks separately or the total checks returned on the right side of the pass book and balance it. This is called *writing up* the pass book but is used by the smaller banks only.

The most common practice among the larger banks is to give each depositor a monthly statement of his account either on a separate sheet or on the envelope in which the canceled checks are placed. The statement illustrated on page 101 is a common form.

Reconciling the Bank's Statement. It frequently happens that the

No. 1 Milwaukee, Wis., Jan. 2, 19—

National Exchange Bank

PAY TO THE ORDER OF C. D. Griffin — $ 50 00

Fifty and no/100 Dollars

L. N. Barr.

No. 2 Milwaukee, Wis., Jan. 5, 19—

National Exchange Bank

PAY TO THE ORDER OF G. L. Lake & Co. $ 672 77

Six hundred seventy-two 77/100 Dollars

L. N. Barr.

balance shown by the bank's statement does not agree with the balance shown by the depositor's check book. This is usually due to the fact that some checks written near the close of the month have not yet been paid by the bank, hence, they are not included in the statement. To explain this difference is *to reconcile the bank account.*

The checks should first be arranged in numerical order and compared with the check stubs. A red ink check mark or *O. K.* should be placed on the check and on the stub.

The missing checks should be listed by number and totaled. This total should then be subtracted from the bank's balance as shown by the bank's statement. The difference should equal the balance as shown by the check book. A record of this reconciliation may be kept on the left

check stub, or, if the number of checks unpaid is large, it may be kept in a special Reconciliation Book.

DETAILS OF DEPOSIT

Jan. 10 Deposit:

Silver	7.50
Currency	50—
Checks	
J. C. Willis	72.50
H. L. Ross	125—
C. D. Fellers	90.75
	345.75

Exercise 27. Rule two sheets of paper lengthwise with two checks and two stubs on each.

Write the checks and make the necessary records like the model forms given in the text. The check book is that of C. H. Oliver and the checks should be signed by him.

December 15. Deposited $3000, in bills.

16. Drew check No. 1, in favor of C. N. Cable, for printing letter and bill heads, $6.75.

18. Drew check No. 2, in favor of the Bender Coal Co., for 10 tons of coal at $5.25.

Forward the balance to the top of the second sheet.

20. Deposited bills, $20, silver, $25, J. B. Grant's check for $35.75, and L. C. Dow's check for $42.80.

22. Drew check No. 3, in favor of Ladd & Son for invoice of the 11th, amounting to $537.25, less 2% discount.

24. Drew check No. 4, in favor of F. A. Wright for two week's salary, $25.

Exercise 28. On sheets of paper make out the papers called for.

1. Make the invoice for the following:

On January 10, sold G. C. Burns, Appleton, Wis., on the terms, 2/10, n/30:

8 bx. Wool Soap at $3.75
10 bbl. White Star Flour at $4.35
15 bbl. Syracuse Salt at $1.65

2. Make a receipted invoice for the following:

On May 8, sold C. S. Silber, Columbus, Ohio, for cash, less 3%:

12 Oak Dining Tables at $15.75
15 Turkish Rockers at $28.75
5 Mahogany Library Tables at $13.75
24 Oak Desk Chairs at $3.15

3. From the following data, write a promissory note:

Your place; current date; time, 60 days; face of note, $315; payable at First National Bank; interest, 6%; maker, Student; payee, L. C. Stern. Show the due date of the note.

4. From the following, write a promissory note:

Chicago, Ill.; Jan. 31; time, 3 months; face of note, $1175.85; payable at Merchants Bank; interest at 7%; maker, Brown & Co., by its president, C. G. Brown; payee, B. C. Goodwin. Show the due date.

BANK STATEMENT OF ACCOUNT

L. M. Bass IN ACCOUNT WITH 11 VOUCHERS RETURNED

National Exchange Bank
OF MILWAUKEE

STATEMENT OF ACCOUNT FOR Oct. 19__

Day	CHECKS		Day	CHECKS		Day	MEMO	DEPOSITS	
3	7	25					Balance	317	75
6	18	—				10		215	20
10	136	50				12	Collection	98	25
15	72	85				18		115	65
18	226	75				25		72	35
21	40	—							
25	12	25							
27	9	50							
28	21	30							
29	16	85							
30	50								
							Total Deposits	819	20
							Total Checks	611	25
	611	25					BALANCE	207	95

CHAPTER XV

WHOLESALE GROCERY

SET V

The Object of this set is:

1. To give the pupil further drill in the use of the books of entry and in the various steps necessary in keeping a continuous set of books.
2. To illustrate a simple partnership business.
3. To give the pupil practice in making out the common business papers.
4. To give him practical work in dealing with the bank and in keeping the necessary records.

The transactions are so arranged that the practice work may be omitted if the teacher desires. But the writing of the business papers and the practice work with the bank are strongly recommended.

If there is no bank in connection with the school, the entries in the pass book may be made by the teacher or by pupils designated for that work from time to time.

Special Instructions. All cash received is in the form of school currency. This is called Incoming Currency. When the business receives cash, it is taken out of Incoming Currency and placed in the Cash Drawer. When a deposit is made, the currency is taken out of the Cash Drawer and placed with the deposit ticket in the pass book.

All payments are made by check. As soon as the check is written and entered, it should be torn out of the check book and placed in the Bank envelope.

All invoices, receipts, and notes should be made out and entered, and then put in the Outgoing Papers envelope.

You should now be sufficiently accurate and exact in your work that it should not be necessary to enter the transactions on loose sheets first. The cash book may, however, be entered on loose sheets first if the teacher desires.

Begin a new page in each book of entry.

Twenty-five price lists are provided and may be used or not as the teacher desires.

Each pupil may be given work in business correspondence in connection

with his bookkeeping work. He may be required to write letters ordering goods, to answer inquiries, to write letters making remittances, and to

COST AND SELLING PRICE LISTS, SET V

ARTICLES	QUANTITY	COST	SELLING PRICE LISTS												
			1	2	3	4	5	6	7	8	9	10	11	12	13
Baking Powder	Case	2.10	2.75	2.80	2.70	2.85	2.90	2.95	3.00	2.78	2.86	2.83	2.68	2.71	2.67
Canned Corn	Doz.	.70	.85	.90	.95	1.00	1.05	.86	1.04	.87	1.03	.88	1.02	.89	1.01
Canned Peaches	Doz.	.85	1.10	1.27	1.22	1.26	1.09	1.28	1.01	1.30	1.20	1.25	1.15	1.24	1.18
Coffee	Lb.	.25	.35	.42	.30	.36	.44	.38	.36	.35	.43	.31	.37	.39	.45
Flour	Bbl.	3.65	4.50	4.75	4.60	4.55	4.65	4.70	4.40	4.56	4.48	4.45	4.57	4.66	4.40
K. Cleanser	Case	1.75	2.15	2.08	2.12	2.01	2.00	2.18	2.02	2.10	2.03	2.07	2.17	2.20	2.16
Macaroni	Case	2.05	2.55	2.48	2.36	2.45	2.44	2.60	2.49	2.37	2.53	2.43	2.65	2.52	2.38
Matches	Case	4.50	5.40	5.56	5.66	5.63	5.37	5.60	5.33	5.62	5.36	5.55	5.69	5.57	5.24
Oat Flakes	Case	1.90	2.30	2.58	2.25	2.32	2.33	2.60	2.57	2.71	2.64	2.68	2.65	2.69	2.63
Raisins	Case	3.20	3.95	4.00	4.15	4.10	4.05	4.21	4.06	4.24	4.04	4.11	4.18	4.12	4.25
Soap	Box	2.35	2.85	2.95	2.90	3.05	3.10	2.93	3.07	2.89	3.09	2.94	2.80	3.08	2.88
Starch	Case	1.65	1.95	1.93	2.03	1.99	2.12	2.01	2.05	2.06	1.94	2.13	2.02	2.10	2.07
Sugar	Lb.	.04	.05	.05½	.05	.05½	.06	.05	.06	.05½	.05	.05½	.06	.05	.06
Tea	Lb.	.35	.45	.49	.39	.48	.41	.46	.48	.40	.50	.45	.47	.42	.51
W. Biscuit	Case	2.60	3.15	3.02	3.27	3.08	3.24	2.96	3.00	2.97	3.09	3.05	3.26	3.21	3.28

COST AND SELLING PRICE LISTS, SET V, (Continued)

ARTICLES	QUANTITY	COST	SELLING PRICE LISTS, (CONTINUED)												
			14	15	16	17	18	19	20	21	22	23	24	25	
Baking Powder	Case	2.10	2.72	2.76	2.65	2.81	2.69	2.88	2.73	2.84	2.79	2.68	2.85	2.74	
Canned Corn	Doz.	.70	1.10	.84	.83	1.11	1.09	1.12	1.08	1.13	1.07	1.14	1.06	1.15	
Canned Peaches	Doz.	.85	.94	1.25	1.29	.97	1.17	.96	1.16	.98	1.14	1.19	.99	.95	
Coffee	Lb.	.25	.40	.38	.32	.28	.31	.33	.39	.32	.40	.34	.29	.41	
Flour	Bbl.	3.65	4.52	4.49	4.64	4.35	4.46	4.51	4.61	4.53	4.62	4.54	4.63	4.30	
K. Cleanser	Case	1.75	2.09	2.04	2.23	2.25	2.22	2.13	2.19	2.14	2.30	2.21	2.06	2.11	
Macaroni	Case	2.05	2.51	2.46	2.30	2.41	2.32	2.40	2.54	2.47	2.39	2.45	2.42	2.35	
Matches	Case	4.50	5.64	5.45	5.67	5.58	5.34	5.68	5.50	5.38	5.59	5.30	5.61	5.25	
Oat Flakes	Case	1.90	2.66	2.55	2.67	2.56	2.65	2.62	2.50	2.54	2.61	2.40	2.59	2.45	
Raisins	Case	3.20	4.14	4.09	4.02	4.20	4.13	4.03	4.17	4.07	4.22	4.08	4.19	4.25	
Soap	Box	2.35	3.12	2.75	3.02	2.96	2.99	2.86	2.98	2.91	2.87	3.04	2.92	3.15	
Starch	Case	1.65	1.92	2.14	1.95	2.08	1.98	1.90	2.04	1.96	2.11	2.15	1.97	2.09	
Sugar	Lb.	.04	.05½	.06	.05½	.06	.05½	.05	.05½	.06	.05	.05½	.06	.05½	
Tea	Lb.	.35	.46	.50	.49	.51	.43	.54	.55	.52	.48	.45	.53	.44	
W. Biscuit	Case	2.60	3.17	3.12	3.10	3.29	3.22	2.98	3.11	3.18	2.95	3.23	3.16	3.25	

acknowledge receipt of remittances. Model letters of different kinds are given at the close of this chapter.

TRANSACTIONS FOR JUNE

June 1. Student and Robert Parker have today formed a copartnership under the firm name of Student and Parker. Each partner invests cash, $2000. They agree to share profits and losses equally.

Make a memorandum of this agreement in the journal. The entries must be made in the cash book. An account must be kept with each partner to show his interest in the business. Make an entry in the cash book for each partner's investment.

Take the currency from the Incoming Currency and place it in the Cash Drawer.

Deposit $4000 in the bank. Make out a deposit ticket. Place the deposit ticket and the currency in the pass book and take it to the bank. Your teacher will make the entry in the pass book or direct some pupil to do it.

Record the deposit on the left check stub and add it to the right check stub like the illustrations on pages 98 and 100, or the method illustrated on page ii of the appendix may be used.

No entry should be made in the cash book for a deposit. Why?

June 1. Lease a store building at 240 Grand St., of L. M. Boyce, at $30 per month.

Make a memorandum of this agreement in the journal. Write a check to pay for one month's rent. Fill out stub No. 1. Write check No. 1 and detach it.

Make the entry in the cash book.

Place the check in the Bank envelope. In actual business the check would be given to L. M. Boyce, who would indorse it and cash it or deposit it. The check would be kept at the bank until the end of the month when it would be returned to you with the bank's statement. The Bank envelope represents the bank's file of checks.

June 2. Buy of the Hart Canning Co., Hart, Mich., on account:
150 doz. Canned Corn
120 doz. Canned Peaches

Make the entry in the purchase book. Use but one line.

June 3. Buy of E. B. Webster & Co., Chicago, on account:
50 cases Macaroni
75 cases Oat Flakes
40 cases Baking Powder
25 cases Raisins
45 cases Starch

June 4. Sell L. N. Noyes, City, on account:
20 doz. Canned Corn
5 cases Raisins
12 cases Oat Flakes

Make out the invoice at the selling price. Should it be receipted? Why?

Enter in the sales book.

June 5. Buy of C. N. Ray & Co., New York, for cash:
1200 lb. Coffee
840 lb. Tea

Make the entry in the purchase book.

Write the check to pay for this invoice.

Make the entry in the cash book debiting C. N. Ray & Co.

June 6. Sell J. E. Fritz, City, on account:
36 doz. Canned Peaches
8 cases Baking Powder
12 cases Starch

Make out the invoice and make the entry.

June 8. Receive of L. N. Noyes, cash, on account, $50.

Take the currency from the Incoming Currency and put it in the Cash Drawer. You must do this each time cash is received.

Make the entry. Give him a receipt.

June 8. Buy of the Baum Stationery Co., blank books and stationery, for cash, $16.75.

Write a check in payment. Make the entry.

What did you do with the check?

Did you bring the balance forward from check stub No. 2? Have you subtracted the amount of this check from it?

June 9. Buy of B. J. Johnson & Co., Milwaukee, on the terms, 2/10, n/30: 150 bx. Soap
75 cases K. Cleanser

Make the entry.

June 10. Sell S. D. Felton, Peoria, Ill., for cash:
120 lb. Coffee at 35¢

Make out the invoice and receipt it.

This is not a sale to a regular customer. Enter it in both the sales book and in the cash book. Check it in both places.

Take the currency from the Incoming Currency and place it in the Cash Drawer.

June 11. Pay the Hart Canning Co. $150 on account.

Write the check and make the entry.

June 12. Sell J. W. Roth, Tiffin, Ohio, on account:
10 cases Raisins
7 cases Baking Powder
30 doz. Canned Corn
18 doz. Canned Peaches

Make out the invoice and make the entry.

June 13. Deposit $50.

Make out the deposit ticket and take it with the currency to the bank for entry.

Make the necessary records in the check book.

June 15. Sell Chas. Orth, City, on account:
240 lb. Tea at 45¢
360 lb. Coffee at 35¢

Make out the invoice and make the entry.

First Report. Prove cash and make a report.

To Prove Cash. Add in pencil each side of the cash book and find the difference. This is the cash balance. Do not rule the cash book. *In actual business cash is proved daily. In many business houses it is also*

balanced daily. But the number of daily cash transactions in this practice work is so few that is is not necessary to prove cash and balance it daily. Count the currency in the Cash Drawer. The amount in the Cash Drawer and the balance in the bank after adding the last deposit should equal the cash balance.

If the cash does not prove, compare the cash received with the amount deposited and the amount on hand in the cash drawer. Compare the check stubs with the cash payments.

Take a report blank from your envelope. Fill out the cash proof.

Take the papers from your Outgoing Papers envelope and put all the paid invoices together and all the unpaid together. Arrange each in the order of the dates. List the paid invoices on the report and find the total. List the unpaid invoices and find the total. Do the same with the receipts. List the checks from the Bank envelope and find the total.

Hand your report, your Outgoing Papers envelope, and your Bank envelope to your teacher for correction. He will return your Bank envelope with the checks to you. The other papers will be kept if they are correct.

You are now expected to make out the necessary papers and to make the entries and records for each transaction without any special instructions. Every new transaction will be explained.

June 16. Receive of J. E. Fritz his note for $60, payable 10 days after date, with interest at 6%.

Make the entry in the journal.
What account should be debited?
What account should be credited?

June 17. Buy of C. N. Ray & Co., New York on the terms 2/10, n/30: 6500 lb. Sugar

June 18. Receive of J. W. Roth, cash on account, $75.

June 18. Sell J. C. Somers, City, on the terms, 2/10, n/30:
1000 lb. Sugar at 5¢

June 19. Sell James Orton, City, the following goods. Terms: Cash $150; note at 30 days with interest at 6% for $100; balance on account:
40 doz. Canned Corn
30 doz. Canned Peaches
50 bx. Soap
25 cases K. Cleanser
20 cases Oat Flakes

Make three entries for this transaction. Debit James Orton in the sales book for the entire invoice. Enter the cash received in the cash book to his credit. Credit him in the journal for the note received. The difference between the debit and the sum of the two credits is the amount on account. No entry is necessary for this as the ledger will show this difference.

June 19. Give B. J. Johnson & Co. a check for their invoice of the 9th, less 2% discount.

How much do you owe B. J. Johnson & Co.? For how much must you debit B. J. Johnson & Co., to balance their account? In theory, how much do B. J. Johnson & Co. return to you because you have paid within 10 days? Is the discount a profit or a loss to you? For how much should the check be written?

Make two entries in the cash book. Do the entries prove with the amount of the check?

June 20. Sell C. I. Johns, Greenville, Mich., on account:
1400 lb. Sugar
12 cases Baking Powder
10 cases Raisins

June 20. Deposit $200.

June 22. Buy of J. B. Kern & Co., City, on account, 30 days:
150 bbl. Flour

June 23. Give the Fischer Furniture Co. a check for $43.25, in payment of the following:
1 Roll-top Desk, $27.50
1 Office Chair, $6.25
1 Table, $9.50

These are not items of expense. They will be used for carrying on the business, but are assets of the business. As they are used they will become of less value because of depreciation. This depreciation is a loss. Debit Furniture and Fixtures account for the amount of the check.

June 24. Sell J. E. Fritz, City, on account:
25 cases Macaroni
25 bbl. Flour
13 cases Starch

June 25. Give the Gross Coal Co. a check for $15.45, for 3 tons coal at $5.15.

Is this merchandise? Why?

June 26. Receive of J. E. Fritz, cash for his note of the 16th and interest.

Make two entries.

What account was debited when you received this note?

Credit the same account for the face value of the note.

June 27. Receive of J. C. Somers cash for his purchase of the 18th, less 2% discount.

How much does Mr. Somers owe? How much cash is received?

Does he owe anything after he has paid the cash?

For how much must his account be credited? In theory, how much do you pay him back? What account should be debited for the discount? Is it a profit or a loss to you?

June 29. Give E. B. Webster & Co. a check for $350, on account.

June 29. C. I. Johns, Greenville, Mich., sends a check for $100 on account, and orders the following:

Terms: on account:

25 cases Macaroni
30 bx. Soap

June 30. Student and Robert Parker each withdraw $50 from the business by check, for personal use.

June 30. Give Central Cartage Co. a check for $62.25, for freight and drayage for the month; $36.10 of this is for freight and drayage on goods bought, and $26.15 is for making deliveries of goods sold.

Charge the $36.10 to Merchandise as it adds to the cost of the goods. Charge the $26.15 to Expense as it is an expense of carrying on the business.

June 30. Deposit all the cash on hand in your Cash Drawer.

Second Report. Prove your cash and make a report. Your report should show the items and total of each of the following:

1. Cash proof
2. Paid invoices
3. Unpaid invoices
4. Checks
5. Our notes
6. Receipts

Hand in your report, your Outgoing Papers envelope, and the Bank envelope.

Present your books of entry and your check book to your teacher for approval.

CLOSING WORK

Study the closing of the books of entry on pages 80 and 81.

1. Balance the cash book and bring the balance down in the last column.
2. Close the sales book.
3. Close the purchase book.
4. Open ledger accounts, three on a page, in the following order:

Student
Robert Parker
Furniture and Fixtures
Delivery Equipment (July)
Merchandise
Notes Receivable
Accounts with customers (Leave one-third of a page for a new account for July).
Cash
Notes Payable

Accounts with creditors (Leave one-third of a page for a new account for July)
Expense
Interest
Merchandise Discount
Profit and Loss

5. Post the sales book, purchase book, cash book and journal. Do not forget to show the book and page from which each entry is posted.

6. Take a trial balance of differences.

7. Inventories, June 30, 19—:

Merchandise:

13 cases Baking Powder
60 cases Canned Corn
36 cases Canned Peaches
720 lb. Coffee
125 bbl. Flour
50 cases K. Cleanser
43 cases Oat Flakes
70 bx. Soap
20 cases Starch
4100 lb. Sugar
600 lb. Tea

Expense:

Coal on hand, $14

Furniture and Fixtures:

Per schedule on file, $43.25

Copy the inventories below the last journal entry.

8. Make a Statement of Profit and Loss.

What effect does the inventory of coal on hand have on this statement?

The Furniture and Fixtures have not depreciated to any extent as yet. They are considered worth their cost for this month. In completing the Statement of Profit and Loss your first result is the Firm's Net Profit. Below that show the share each partner should receive, and what each partner's net worth is. (See illustration on page 110)

9. Make a Statement of Assets and Liabilities.

Do not forget that all inventories are assets. The result of this statement is the firm's net worth.

The firm's net worth should agree with the firm's net worth as shown on the Statement of Profit and Loss.

10. Close the following accounts:

a) Merchandise
b) Expense
c) Interest
d) Merchandise Discount
e) Profit and Loss

STATEMENT OF PROFIT AND LOSS

Student's Net Profit	117 24		
Robert Parker's Net Profit	117 23		
Firm's Net Profit			234 47
Student's Investment	2500 —		
" Withdrawal	100 —		
" Net Credit	2400 —		
" Net Profit	117 24		
" Net Worth			2517 24
R. Parker's Investment	2500 —		
" " Withdrawal	75 —		
" " Net Credit	2425 —		
" " Net Profit	117 23		
" " Net Worth			2542 23
Firm's " "			5059 47

The Profit and Loss account must be closed to show the amount that each partner should receive. The account here closed does not show all of the accounts on the same side that the Profit and Loss account for June will show.

Profit & Loss

19–						19–					
May	31	Expense	8	142	75	May	31	Mdse.	5	416	20
	31	Mdse. Disc.	9	7	15		31	Interest	9	3	25
	31	Student's Net P.	1	134	78						
	31	R. Parker's "	1	134	77						
				419	45					419	45

f) Close each partner's account. Each partner's share of the profits must be transferred to his account. Each account is then closed in the same way that an individual proprietor's account is closed.

g) Close the Cash Account.

h) Rule a single line on each side of each account that balances. Do not close any other accounts.

11. Take a proof trial balance.

12. Write up your pass book. Take the checks from your Bank envelope, count them, and find the total. Enter this total on the right side of the pass book as follows:

May	31	11 checks ret'd		1271	25

Your amount will not be the same as this.

Subtract the sum of the checks from the sum of the deposits. Enter the balance in red ink on the right side, rule straight across, and carry the balance to the top of the next page. The balance should agree with the amount in the bank as shown by the check book.

SET V (Continued)

The work of this month is a continuation of the work of June.

Use a new page for the journal. Begin the entries in the other books of entry on the next line below the entries for June. Read the special instructions for June again before beginning this month's work.

TRANSACTIONS FOR JULY

July 1. Pay the rent for July. Examine the memorandum in the journal for June 1 before writing the check. Continue numbering the checks in the same way that you have begun.

July 1. Hire John Madden as clerk at $35 per month.

Make a memorandum in the journal.

July 2. Buy of J. Kirk & Co., Chicago, on our note at 30 days, without interest:
30 cases Matches
25 cases W. Biscuit
15 cases Macaroni

Give the note in payment.

July 3. Sell J. C. Somers, City, on the terms, 2/10, n/30:
10 cases Matches at $5.40
20 cases Oat Flakes at $2.30

July 3. Receive of J. E. Fritz, on account, $200.

July 3. Pay C. N. Ray & Co., the balance of their account for June.

Examine their ledger account. How much have you bought from them? How much have you paid them?

July 6. Sell L. N. Noyes, City, on account:
24 doz. Canned Corn
16 bx. Soap
5 cases K. Cleanser

July 7. Sell J. E. Fritz, City, on the terms, 3/5, 2/10, n/30:
40 bbl. Flour at $4.50
2400 lb. Sugar at 5¢

July 7. Receive of Chas. Orth, his note at 30 days, with interest at 6%, for $234, for invoice of June 15.

July 8. Buy of the Hart Canning Co., Hart, Mich., on the terms, 2/10, n/30:
120 doz. Canned Corn
200 doz. Canned Peaches

July 9. Receive of C. I. Johns, on account, $150.

July 9. Sell C. I. Johns, Greenville, Mich., the following goods: Terms: note for 15 days with interest at 6%, for $60; balance in 30 days:
8 cases W. Biscuit
24 doz. Canned Peaches
5 cases Baking Powder
12 cases K. Cleanser

Debit C. I. Johns in the sales book for the whole amount of the invoice and credit him in the journal for the amount of the note. The ledger account will show the balance after these two entries have been posted.

July 10. Pay J. B. Kern & Co., on account, $400.

July 11. Receive of J. E. Fritz, cash for invoice of the 7th, less discount.

In making the entries for this transaction be sure that the credit to J. E. Fritz's account for this invoice is the same as the debit when the goods were sold.

July 13. Sell B. C. Donovan, City, for cash:
30 bbl. Flour at $4.50

Mr. Donovan is not a regular customer. Do not open an account with him. Enter in the sales book and cash book and check in both places.

July 13. Receive of J. C. Somers cash for invoice of the 3d, less discount.

Do not forget that your entry must show that Mr. Somers has paid invoice of the 3d in full and that you have allowed him discount.

July 14. Buy of E. B. Webster & Co., City, on account:
25 cases Raisins
12 cases Baking Powder
10 cases Oat Flakes

July 14. Deposit all cash on hand.

July 15. Receive of L. N. Noyes, on account, $75.

July 15. Sell Chas. Orth, City, on account:
25 bx. Soap
5 cases Macaroni
8 cases Starch
12 cases W. Biscuit

Third Report. Prove cash. Do not forget to count the cash in your Cash Drawer.

Fill out a report blank showing the cash proof, the papers in your Outgoing Papers envelope, and the checks in the Bank envelope.

Hand in your report, your Outgoing Papers envelope, and your Bank envelope.

July 16. Sell James Orton, City, on account:
48 cases Canned Peaches
10 cases Baking Powder
8 cases Raisins
5 cases W. Biscuit

July 17. Give E. B. Webster & Co., your note at 30 days, for $150, on account.

July 18. Pay the Hart Canning Co., for their invoice of the 8th, less discount.

July 18. Receive of James Orton cash for his note of June 19, and interest.

How many entries must be made for this transaction? Why?

July 20. Sell J. E. Fritz, City, on account:
72 cases Canned Corn
120 lb. Coffee
144 lb. Tea

July 21. Pay J. B. Kern & Co., the balance of their invoice of June 22.

July 21. Receive of James Orton, on account, $80.

July 22. Sell C. I. Johns, Greenville, Mich., on account, 10 days:
15 bx. Soap
8 cases Macaroni
15 bbl. Flour

July 23. Buy of J. B. Kern & Co., City, on account:
50 bbl. Flour

July 23. By agreement with E. B. Webster & Co., prepay your note of the 17th. They allow you discount for the unexpired time at 6%.

How long a time has the note to run? Should the check be written for more or less than the face value of the note? What account must be debited for the face value? What account must be credited for the discount? Do you make or lose by this transaction?

July 24. Receive of C. I. Johns cash for his note of the 9th, and interest.
July 24. Deposit $250.
July 25. Sell J. W. Roth, Tiffin, Ohio, on account, 30 days:
15 cases K. Cleanser
12 cases Starch
15 cases Matches
10 cases Raisins
July 27. Buy of C. N. Ray & Co., New York, on the terms, 2/10, n/30:
480 lb. Coffee
July 28. Sell M. Tinsman, Des Moines, Iowa, on account:
5 cases Matches
7 cases Raisins
1200 lb. Sugar
July 28. Buy a delivery truck of the Cole Motor Co., for $1275. Terms: cash, $500; balance in 60 days.

A special account called Delivery Equipment must be kept to show the cost of the delivery truck. This is a property account like Furniture and Fixtures. Nothing but real values that add to the value of the equipment should be charged to this account. This cannot be entered in the purchase book as it is not a purchase of merchandise. Make an entry in the journal debiting Delivery Equipment and crediting Cole Motor Co. for $1275. Write a check for $500. Then make an entry in the cash book debiting Cole Motor Co. for the amount of the check.

July 29. Receive of J. E. Fritz, on account, $175.
July 29. Pay J. B. Kern & Co., on account, $150.
July 30. Student and Robert Parker each withdraw $75 for personal use. Give each partner a check for that amount.
July 31. Pay clerk's salary, $35.
July 31. Give the Central Transfer Co. a check for $71.25 for freight and drayage for the month, $40.75 being for freight and drayage on merchandise bought and $30.50 drayage on goods sold.

The first is a charge added to the cost of the goods; the second is an expense of carrying on the business.

Deposit all the cash on hand.

Fourth Report. Prove cash and make a report.

Hand in the report and the Outgoing Papers and Bank envelopes.

CLOSING WORK

1. Close the cash book, sales book, and purchase book.
2. Post the books of entry.
3. Take a trial balance of differences.
4. Inventories, July 31, 19—;

Merchandise:

10 cases Baking Powder
84 doz. Canned Corn
164 doz. Canned Peaches
1080 lb. Coffee
90 bbl. Flour
18 cases K. Cleanser
2 cases Macaroni
33 cases Oat Flakes
14 bx. Soap
500 lb. Sugar
456 lb. Tea

Expense:

Coal on hand, $11.75.

Furniture and Fixtures, Cost	$43.25
Less 1% depreciation	.43
Present value	$42.82

5. Make a Statement of Profit and Loss.

The Furniture and Fixtures are worth 43¢ less than cost on account of use. The 43¢ depreciation is a loss.

The Delivery Equipment has just been purchased. It is worth its cost price.

6. Make a Statement of Assets and Liabilities.

How much is the asset of Furniture and Fixtures worth to the business? How much is the Delivery Equipment worth to the business?

7. Close the following accounts:
   a) Furniture and Fixtures

To close Furniture and Fixtures, enter the inventory value in red ink on the credit side and subtract it from the debit side. Enter the difference, the depreciation, as *Profit and Loss* on the credit side. Rule and transfer in the same way as in Expense.

   b) Merchandise
   c) Expense
   d) Interest
   e) Merchandise Discount
   f) Profit and Loss

10. Close all the other ledger accounts that do not balance by *Balance*. Rule those that balance.

11. Take a proof trial balance.

12. Write up your pass book.

Exercise 29. From the following trial balance and inventories make statements of Profit and Loss and of Assets and Liabilities.

TRIAL BALANCE, JUNE 30, 19—

C. D. Seigel, Proprietor		$3175.50
D. E. Ryan, Proprietor		3175.50
Furniture and Fixtures	$ 57.80	
Merchandise	3468.55	2132.40
Notes Receivable	576.45	
D. J. Long	1312.50	
C. E. Severns	932.35	
B. J. Dietsch	1643.25	
Cash	2310.60	
Notes Payable		1017.25
F. A. Cannon		647.05
H. E. Emery		379.70
Expense	236.40	
Interest	5.25	
Merchandise Discount		15.75
	$10543.15	$10543.15

Inventories:

Merchandise	$1671.15
Expense	15.00
Furniture and Fixtures	54.50

The partners share profits and losses equally.

Exercise 30. From the following trial balance and inventories make statements of Profit and Loss and of Assets and Liabilities.

TRIAL BALANCE, JULY 31, 19—

D. E. Ferry, Proprietor		$2071.30
C. A. Lange, Proprietor		1116.15
Furniture and Fixtures	$ 42.80	
Delivery Equipment	516.25	
Merchandise	2978.15	2063.20
Notes Receivable	742.45	
L. E. Cary	126.30	
B. J. Eaton	913.10	
C. I. Gross	98.25	
Cash	2017.85	
Notes Payable		1436.65
G. I. Winton		712.35
M. A. Mixer		247.25
Expense	197.15	
Interest	8.05	
Merchandise Discount	6.55	
	$7646.90	$7646.90

Inventories:

Merchandise	$1031.65
Expense	12.50
Furniture and Fixtures	40.65
Delivery Equipment	511.10

REVIEW QUESTIONS

1. Analyze each of the following accounts by telling for what each is debited, for what credited, what the difference shows, and why: (a) Notes Receivable; (b) Notes Payable; (c) Interest; (d) Merchandise Discount; (e) a partner's account.
2. Why should all sales be entered in the sales book?
3. How should cash sales in a retail business be entered?
4. How should cash sales to regular customers be entered?
5. How should cash sales to those that are not regular customers be entered?
6. What entries should be made when merchandise is bought and a note given?
7. What entries should be made when merchandise is sold and a note received in payment?
8. Explain the meaning of 3/5, 2/10, n/30.
9. Give the rule for debiting and crediting Merchandise Discount.
10. What may the Merchandise Discount account show when closing the ledger?
11. What entry should be made when the business pays an invoice, less discount?
12. What entry should be made when a customer pays an invoice less discount?
13. What are the advantages of a commercial account at the bank?
14. Of what advantage are payments by check?
15. Explain the necessary steps in opening a bank account.
16. What is the pass book? Who makes the entries in it?
17. What important things should be observed in writing checks?
18. How should checks be indorsed if they are to be sent through the mail? How may they be indorsed for deposit?
19. What is the bank's statement of account?
20. What is meant by reconciling a bank's statement? How is it done.
21. What kind of an account is Furniture and Fixtures? How should it be closed if there is a depreciation?
22. To what account would you charge repairs made to fixtures? Why?
23. To what account would you charge gasoline for the motor truck? A new tire? Give reasons.
24. To what account would you charge freight or drayage on goods bought?
25. To what account would you charge drayage for delivering goods to customers?
26. How do you prove cash?

MODEL LETTER ORDERING GOODS

572 Twelfth St.,
Madison, Wis., May 2, 19-

John Hoffman & Sons Co.,
East Water and Buffalo Streets,
Milwaukee, Wis.

Gentlemen:

Please ship by C. & N. W. freight the following:

10 cases Saginaw Matches
12 bx. Galvanic Soap
15 bbl. Gr. Sugar
8 bbl. Lily Flour

I will remit for the goods within 10 days, less the usual discount.

Yours truly,
James M. Bradley

MODEL LETTER OF REMITTANCE

572 Twelfth St.,
Madison, Wis., May 11, 19—.

John Hoffman & Sons Co.,
East Water and Buffalo Sts.,
Milwaukee, Wis.

Gentlemen:

Inclosed you will find my check for $350.84, in full for invoice of May 3, less 2%.

Your prompt shipment of the goods is greatly appreciated. The goods arrived in good condition and are proving satisfactory.

Yours very truly,

Inclosure. James M. Bradley.

LETTER ACKNOWLEDGING REMITTANCE

East Water and Buffalo Sts.,
Milwaukee, Wis., May 13, 19—.

Mr. James M. Bradley,
572 Twelfth St.,
Madison, Wis.

Dear Sir:

We are in receipt of your check for $350.84, in full payment of invoice of May 3, less 2%, and have placed the remittance to your credit.

We are pleased that the goods are giving satisfaction, and hope for further orders from you.

Yours very truly,

John Hoffman & Sons Co.

by C. E. H.

PART II

CHAPTER XVI

TRADING ACCOUNTS

The Merchandise account, as we have learned, is a mixed account. To this account have been posted the purchases and sales. At the end of the business period the inventory has been entered in the Merchandise account and the profit or loss found.

The Merchandise account, as a mixed account, may be used in a small business but is not adapted to a large business. There are other elements that must be considered in a larger business. Returns and allowances are made on both purchases and sales. Freight must be paid on goods bought by the business. Materials and supplies for packing must be purchased.

One mixed Merchandise account containing all of these different items would not give much definite information to the business man. In its place several accounts will be kept. The size of the business and the necessity of providing detailed information will, to a large extent, determine how many accounts will be kept. For the present, accounts will be kept with Purchases, Sales, Merchandise Trading, and Freight In.

Purchases Account. An account is kept with Purchases to show the amount of all merchandise bought by the business, for all added costs, and for all returns and allowances on purchases.

The cost of merchandise is more than simply the cost of the goods bought. To that must be added the cost of freight and drayage on goods bought. The cost of boxes, barrels, packing materials, and any charges for buying, such as agent's commission, add to the cost of the goods, as well as the wages paid the shipping clerk and his helpers.

A separate account may be kept with each kind of added cost if the details are great in number. For the present, an account will be kept with Freight In for the cost of freight and drayage on goods bought. All other charges will be debited direct to Purchases. All charges to Purchases should be explained in the ledger by writing the charge in the explanatory column, as *Cooperage, Packing boxes, Agent's commission.*

Monthly the total of the purchase book should be posted to the debit of the Purchases account.

When a Freight In account is kept, the total of that account should be closed into Purchases before Purchases is closed.

Returned Goods, Rebates, and Allowances. When the business returns goods that have been charged to Purchases or is given a rebate or allowance for a shortage, overcharge, or for damaged goods, Purchases must be credited. These items are not usually very numerous, so they may be entered in the journal. A separate book may be used for them in a larger business.

The Journal entry would be as follows:

	8			
C. N. Cady	Allowance for	3 25		
To Purchases	1 bx. Oranges			3 25
	damaged, on			
	inv. of the 4th			

In posting this to the ledger in the explanatory column of both C. N. Cady's account and of Purchases, "Damaged goods" should be written.

When an allowance is made, the seller usually sends the buyer a credit memorandum. This is often printed and written in red ink. It shows the buyer that he has been given credit for the allowance on the seller's books.

Rule. *Debit* Purchases for all merchandise bought, for the cost of packing and shipping materials, and for the wages of the shipping clerk and helpers.

Credit Purchases for all goods returned by us and for all allowances and rebates allowed to us on merchandise.

To Close Purchases Account. The object of the closing of the Purchases account is to find the cost of the goods sold. To do this, the inventory of merchandise on hand at closing must be entered on the credit side in red ink. The difference, a debit balance, is entered in red ink on the credit side with the words *Merchandise Trading* and the page of that account. This difference is transferred to the debit side of Merchandise Trading in black ink. (See illustration on page 122)

Freight In. This account is kept to show the cost of all freight and drayage on goods coming into the business. It is debited for these costs. It rarely has any credit items. It may be credited when a freight or drayage bill has been paid and afterward an allowance is made by the transportation company because of a mistake or an overcharge.

To Close Freight In. Freight In should be closed into Purchases account as it is an added cost of merchandise bought. Find the sum of the debit side. From this sum, subtract the sum of the credit side, if any. The difference is the amount to be transferred to Purchases. Enter this difference on the credit side with the date, *Purchases*, and the page of

Purchases

PAGE 10

19–						19–					
Sept.	8	Boxes	C	15	7 50	Sept.	9	Ret'd goods	J	5	25 20
	15	Buyer's Com.	C	15	11 75		15	Damaged "	J	6	17 85
	30		P	5	3172 65		18	Shortage	J	6	10 15
	30	Freight In		8	112 80		21	Overcharge	J	7	10 —
							30	Inventory			1263 85
							30	Mdse. Trading		12	1977 65
					3304 70						3304 70
Oct.	1	Inventory			1263 85						

the Purchases account. Transfer this difference to the debit side of the Purchases account in black ink, writing *Freight In*, in the explanatory column.

Sales Account. This account is kept to show the gross sales, the goods returned, and allowances, rebates and overcharges on goods sold.

Rule. *Debit* Sales for goods returned to us and for allowances for shortage, damaged goods or overcharges on goods sold.

Credit Sales for all goods sold. The difference is the net sales.

Entries for returned goods and for allowances are made in the journal unless a separate book is kept for that purpose. The entry for an allowance to a customer for damaged goods would be made as follows:

	Sales	9		
	To C. D. Theiler	Allowance for overcharge on invoice of the 3d	18 —	18 —

To Close Sales Account. Find the difference between the credit and debit sides. Enter in red ink on the debit side the date, *Merchandise Trading*, the page of that account, and the amount. Transfer this amount to the credit side of Merchandise Trading in black ink.

Sales

PAGE 11

19-						19-					
Sept 3	Ret'd Goods	J 8	19	25		Sept 30		S 18	2386	55
15	Overcharge	J 9	7	65						
25	Damaged Goods	J 10	12	15						
30	Mdse. Trading	12	2347	50						
			2386	55					2386	55

Merchandise Trading Account. This account is kept to show the gross trading profit or loss. It shows the profit or loss in buying and selling before any expenses have been deducted. The account is made up of transfers from the Purchases and the Sales accounts. On the debit side is the balance of the Purchases account. This represents the entire cost of the goods sold. On the credit side is the balance of the Sales account. This represents the net returns from sales. The account then shows a profit if the credit side is the larger and a loss if the debit side is the larger.

Merchandise Trading

PAGE 12

19-						19-					
Sept 30	Purchases	10	1977	65		Sept 30	Sales	11	2347	50	
30	Profit + Loss	14	369	85							
			2347	50					2347	50	

All of these trading accounts are nominal accounts except Purchases. The Purchases account is a mixed account in that it contains a real element, the inventory of goods on hand. The balance of Purchases transferred to Merchandise Trading is the nominal element.

OPENING DOUBLE ENTRY BOOKS

The investments so far used have been cash investments. An individual proprietor may begin a business by investing other assets besides cash. Two persons may form a copartnership and each invest cash and other assets; they may each owe liabilities which the new business will assume.

In making the entries for cash and other assets invested, it is best to enter all the assets including cash in the journal so as to show the whole investment in one place. The cash is then entered in the cash book and checked.

Everything must be entered so as to show the present value to the business of all assets. If an interest-bearing note is invested, the face value of the note must be entered to Notes Receivable and the accrued interest under Interest. If a non-interest-bearing note is invested, discount must be computed on it for the unexpired time of the note. The face value of the note must be entered on one side and the discount under Interest on the other side.

If, on May 1, C. L. Light invests cash $3000; a stock of goods, $4175; L. E. Emery's note for $350, dated April 10, payable 60 days after date, with interest at 6%; and office furniture valued at $45, the entry would be made as follows:

Milwaukee, Wis., May 1, 19—

		C. L. Light has this day begun the Jobbing Furniture business, investing the following:			
	√	Cash	On hand	3000 –	
		Purchases	Per inventory	4175 –	
		Notes Receivable	L. E. Emery's note, dated Apr. 10	350 –	
		Interest	21 da. on above	1 23	
		Furniture & Fixtures	Per schedule	45 –	
		To C. L. Light	Total assets		7571 23

Cash Receipts

19—					
May 1	√	C. L. Light	Cash investment	3000 –	

When each of two or more partners make investments of cash and other assets and owe certain liabilities, separate entries must be made for each partner.

Rule. *Debit* each asset including cash and each deduction from a liability, under the proper heading.

Credit each liability and each deduction from an asset, under the proper heading.

Credit the partner for the net worth of his investment as shown by the difference between the total debits and total credits.

June 1. D. G. Groves and J. A. Ford have formed a copartnership in the Jobbing Hardware business under the firm name of Groves & Ford. They agree to share gains and losses equally and each agrees to devote his entire time to the business.

D. G. Groves invests the following assets: Cash $2500; stock of hardware, $2725; motor truck and equipment, $1275; office furniture and fixtures, $145; C. L. Eaton's note for $450, dated May 17, payable 60 days after date, with interest at 6%; D. E. Farwell's account for $325.

He owes H. I. Gede, on account, $455, and a note for $1500, in favor of National Exchange Bank, payable 90 days after April 10, without interest.

J. A. Ford invests the following assets: Cash, $505.45; a store building and lot valued at $10475; B. E. Allen's note for $575, dated May 21, payable 30 days after date, without interest.

He owes the Gunn Land Co. a note for $6000, dated March 15, payable six months after date, with interest at 6%, as part of the purchase price of the building and lot.

The memorandum for the formation of the copartnership and the entries are shown here.

Milwaukee, Wis., June 1, 19—

	D. G. Groves and J. A. Ford have this day formed a copartnership under the firm name of Groves & Ford, to engage in the Jobbing Furniture business at 316 Grand Ave. They agree to share profits and losses equally per articles of copartnership filed.					
	D. G. Groves invests the following assets and liabilities:					
√	Cash	On hand	2500	–		
	Purchases	Per inventory	2725	–		
	Delivery Equipment	Per schedule	1275	–		
	Furniture & Fixtures	" "	145	–		
	Notes Receivable	Per bill book	450	–		
	Interest	15 da. on above	1	13		
	D. E. Farwell	Owes the business	325	–		
	Interest	38 da. disc. on notes payable	9	50		
	To H. I. Gede	Business owes him			455	–
	Notes Payable	Per bill book			1500	–
	D. G. Groves	Net worth			5475	63

1.

J. A. Ford invests the following assets and liabilities:

√	Cash	On hand	505	45		
	Real Estate	Per inventory	10475	–		
	Notes Receivable	Per bill book	575	–		
	To Notes Payable	" " "			6000	–
	Interest	78 da. on above			78	–
	Interest	19 da. on notes rec.			1	82
	J. A. Ford	Net worth			5475	63

The $9.50, in D. G. Groves' entry for the assets, charged to Interest, is the discount on the note in favor of National Exchange Bank for $1500 for the unexpired time, 38 days, at 6%. This is a deduction from the liabilities.

The $1.82, in J. A. Ford's entry for the liabilities, credited to Interest, is the discount on B. E. Allen's note for $575 for the unexpired time, 19 days, at 6%. This is a deduction from the assets as the note is not worth its face value.

Exercise 31. Make the necessary entries for the following: C. McBeath began business June 1, investing the following assets and liabilities:

2 horses and a wagon valued at $475
Office furniture and fixtures valued at $48.25
Stock of goods, per inventory, $2198.50
5 tons of coal valued at $4.75 per ton
C. L. Frank's note, dated May 18, payable 30 days after date, with interest at 6%, for $275
D. E. Crane owed him on account, $875.35
F. A. Post owed him on account, $317.40
Cash in Marine Bank $1375.75
He owed a note in favor of Delzer & Co., dated Apr. 25, payable 60 days after date, with interest at 6%, for $950.
He owed on account:
D. E. Camm, $412.50
M. A. Avery, $178.25

Exercise 32. Make the necessary entries for the following: G. A. Kunz and C. E. Jarvis formed a copartnership on July 1, under the name of G. A. Kunz & Co. They agree to share profits and losses equally.

G. A. Kunz invests the following assets and liabilities:
Store building and lot, $9750
Delivery truck, $1375
Office furniture, $85.25
Office supplies, $15.45
Stock of goods, $3042.20

D. L. Lawton's note, dated June 10, payable 30 days after date, without interest, for $560 (Compute discount on this note at 6%)
G. E. Cooper's note, dated June 3, payable 30 days after date, with interest at 6%, for $625
S. N. Frazer owes on account, $378.40
Cash in Third National Bank, $1072.25
He owes a note in favor of National Exchange Bank, dated May 1, payable 3 months after date, with interest at 6%, for $1250
He owes on account:
Chas. Fuller, $412.60
D. Williams, $257.80

C. E. Jarvis invests the following assets and liabilities:
C. & N. W. R. R. Stock, $4500
Stock of goods, $1365.20
G. E. Long's note, dated June 8, payable 30 days after date, without interest, for $1172.50 (Compute discount at 6%)
Jarvis' note, dated July 1, payable 60 days after date, with interest at 6%, for $5000
Cash, $4750
He owes a note in favor of Banker & Co., dated June 12, payable 60 days after date, without interest, for $1500 (Compute discount at 6%)
He owes on account:
C. L. Libbey, $437.50
Frank Pace, $850.75

CHAPTER XVII

BANK AND SIGHT DRAFTS

Drafts are of two kinds, *bank* and *personal.*

Personal Drafts are either *sight* or *time.*

A Bank Draft is an order drawn by one bank on a bank in another city, payable to the order of a person.

Parties. There are three parties to a bank draft: the *drawer,* the *payee* and the *drawee.*

The drawer is the bank that draws the draft.

The payee is the person in whose favor the draft is drawn.

The drawee is the bank on which the draft is drawn.

A bank draft is similar to a check. A check is an order on a bank drawn by a depositor to the order of a person or to cash or bearer. The depositor orders the bank to pay a certain sum of money out of the funds that he has on deposit with the bank.

Banks have deposits with banks in the large cities, particularly with banks in New York City and Chicago. A bank draft is, then, simply an order by a bank on a bank in which it has a deposit.

If the draft is on a New York bank, it is frequently called New York exchange, and if on a Chicago bank, Chicago exchange.

Uses of Bank Drafts. Bank drafts are used in place of checks to make remittances to firms in other cities. K. L. Laabs, Milwaukee, orders an invoice of goods of Arnold & Co., Pittsburg, Pa., amounting to $242.75. He has never dealt with Arnold & Co. before, and his financial standing is not known to Arnold & Co. If he sends a check on a Milwaukee bank in payment, Arnold & Co. will not fill the order until they know that the check is good. That will take several days. Arnold & Co. must deposit it with their bank in Pittsburg. The Pittsburg bank must send it to the Milwaukee bank either direct or through a Chicago bank, and if the check is good, the credit must be sent back to the Pittsburg bank in the same way.

If K. L. Laabs had sent a New York draft in payment, it would have been accepted as cash and the order shipped at once.

New York drafts are taken everywhere as cash for two reasons:

1. They are drawn by responsible financial institutions on large banks of large cities.

2. Before a bank draft will be issued, the buyer must pay for it. He may pay money, give a check on his account at the bank, or pay in any other funds the bank accepts as cash.

If the buyer has an account at the bank, he draws a descriptive check, as follows:

"Pay to the order of N. Y. Draft $242.75, Exch. 25¢, $243."

The bank draft will then be issued if the check is good. The charge of 25¢ is exchange, which the bank charges for its trouble and expense. If the buyer of the draft does not know the amount of the exchange, or prefers to, he may write the check for the amount of the draft which he wishes to buy and pay the exchange in money.

Bank drafts are usually made payable to the buyer (remitter) and indorsed by a special indorsement to the person to whom payment is to be made. The advantage of this is that the draft then shows the name of the remitter on the back. This is an advantage to the person receiving as there is no danger of placing the credit to the wrong account.

The bank draft which K. L. Laabs would send to Arnold & Co. is as follows:

Milwaukee, Wis., Oct. 3, 19— No. 415

National Exchange Bank

PAY TO THE ORDER OF K. L. Laabs $ 242 75/100

Two hundred forty-two 75/100 Dollars

To First National Bank
New York

D. G. Hartman
Cashier

In this draft, National Exchange Bank is the drawer, First National Bank, New York City is the drawee, and K. L. Laabs, the payee.

The payee, K. L. Laabs would transfer this draft to Arnold & Co. by a special indorsement. (See illustration of special indorsement on page 130.)

The entries for a bank draft are the same as for a check, with an additional entry in the books of the remitter for the exchange. This may be charged to Expense if the entries are few in number, or it may be charged to Collection and Exchange. You will charge it to the latter account.

K. L. Laabs' entries, Cash Payments

Oct.	3	Arnold & Co.	N. Y. dft. for order	242	75
	3	Col. & Exchange	On above		25

Arnold & Co.'s Entries, Cash Receipts

Oct.	5	K. L. Laabs	Inv. of to-day	242	75

Personal Sight Drafts. Personal sight drafts resemble bank drafts in that they are payable at once. They differ from bank drafts in these respects:

1. The drawer and the drawee of a sight draft are always persons. The payee may be a person or a bank.

2. The drawee of a sight draft legally may refuse payment even if he owes the drawer.

The drawee of a bank draft cannot refuse payment if it has funds belonging to the drawer bank.

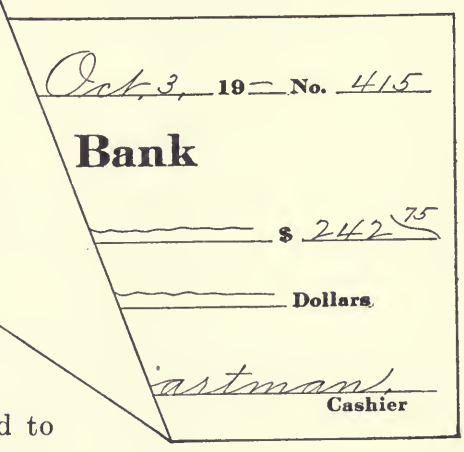
3. A sight draft is not usually accepted as cash until the drawee consents to pay it.

Special Indorsement

Pay to the order of Arnold & Co. K. L. Laabs

Sight Drafts are of two kinds, the *three-party* and the *two-party*.

Three-party Sight Drafts. The three-party sight draft is used to save the inconvenience and risk of sending money. If A in Chicago owes B in St. Louis and C in St. Louis owes A, these debts may be canceled in whole or in part by means of a sight draft. A draws a draft on C in favor of B and remits it to B. B presents it to C who pays it. In doing this A has canceled his debt to B and C has canceled his debt to A.



A draft of this kind should not be used to

pay a debt unless the drawer is reasonably sure that the drawee will pay the draft on presentation. He may assure himself of this by asking the drawee's permission, by notifying him that unless he objects, a draft will be drawn on him, or by quoting him prices and selling him goods subject to a sight draft.

THREE-PARTY SIGHT DRAFT

$ 600.00 Milwaukee, Wis., Nov. 3, 19—

At sight PAY TO THE ORDER OF

E. C. Frey

Six hundred no/100 Dollars

Value received and charge to account of

To G. Davis & Co.
Toledo, O.

No. 95 Due —

N. Willer

In this draft, G. Davis & Co. owe N. Willer $600 or more. N. Willer owes E. C. Frey at least $600. Both of these debts are canceled by this sight draft.

N. Willer is the drawer, E. C. Frey, the payee, and G. Davis & Co., the drawee. N. Willer sends the draft to E. C. Frey, who presents it to G. Davis & Co. When G. Davis & Co. pay it, the draft is receipted by E. C. Frey and given to them. Should G. Davis & Co. refuse payment, a legal step called *protesting the draft* may be taken and the draft sent back to the drawer, N. Willer.

Drawer's Entry. If N. Willer had paid E. C. Frey $600, he would have debited Frey's account for that amount. If G. Davis & Co. had paid N. Willer $600, then their account would have been credited. This result is accomplished by a journal entry.

N. WILLER'S JOURNAL ENTRY

	3			
E. C. Frey	Drew a sight	600—		
To G. Davis & Co.	draft on G.			600—
	Davis & Co. and			
	remitted it to			
	E. C. Frey, on acct.			

Payee's Entry. If the payee, E. C. Frey, had received cash of N. Willer, he would have debited Cash and credited N. Willer. Instead, the cash is received from G. Davis & Co. for N. Willer's account. The payee's entry is made in the cash book as follows:

E. C. Frey's Cash Receipts

Nov. 5	N. Willer	Sgt. dft. on G. Davis & Co.	600—

Drawee's Entry. If the drawee, G. Davis & Co. had paid N. Willer on account, they would have debited N. Willer and credited Cash. But they have paid E. C. Frey for N. Willer's account. The drawee's entry is made in the cash book as follows:

G. Davis & Co's Cash Payments

Nov. 5	N. Willer	Sgt. dft. favor E. C. Frey	600—

Rules for Three-party Sight Drafts. The Drawer's Entry in the journal when the sight draft is drawn is, Payee to Drawee.

The Payee's Entry in the cash book when he receives payment of a sight draft is, Cash to Drawer.

The Drawee's Entry in the cash book when he pays a sight draft is, Drawer to Cash.

Two-party Sight Drafts. The most important use of the sight draft is for the purpose of obtaining payments on account or of collecting past due accounts. When this is done, the draft is drawn on the customer or debtor in favor of the drawer himself, or in favor of a bank as the drawer's agent. The drawer becomes both the drawer and the payee.

Almost all drafts of this character are collected through banks. For that reason, the bank is usually named as the payee, but is really only the drawer's agent for collecting the draft. The draft may be drawn in favor of the drawer, himself, and then indorsed to the bank.

The principal uses of two-party sight drafts are as follows:

1. **To Collect Part of an Invoice.** Goods may be sold on the terms, sight draft for a certain amount. The draft is drawn at the time of the sale and given to a bank for collection. It may be dated ahead or drawn *at sight*, within a certain number of days after the date of the sale. The buyer of the goods knows that a draft will be presented to him for payment and rarely refuses to pay it.

2. **To Collect Past Due Accounts.** After a creditor has made several efforts to collect accounts that are past due, he usually resorts to the sight draft before giving the account to an attorney or to a collection agency for collection.

Before the draft is drawn, several statements of account, and, it may be, letters have been sent to the debtor requesting payment. If he makes no payment or gives no satisfactory reason for not making payment, the last letter or statement sent before drawing the sight draft will contain some statement similar to the following: "If settlement is not made in 10 days, we will draw on you through our bank for the amount of your account."

3. **To Make Advance Collections.** In some lines of business, it is a frequent thing to ship goods to be sold on commission. The shipper of the goods frequently draws *at sight* on the merchant to whom he has made shipment, for a part of the value of the goods shipped. This is an advance payment, but it is a common custom and the draft is usually paid when presented unless the amount is too large. This use of the sight draft will be fully explained later.

4. **To Collect on Delivery.** When goods are sent by freight and the money must be paid before delivering the goods, a sight draft is usually used to make the collection. This use of the sight draft will also be explained later.

A sight draft for the purpose of collecting money is illustrated.

SIGHT DRAFT TO COLLECT

$ 150 00/100 Milwaukee, Wis. Nov. 10, 19—

At sight PAY TO THE ORDER OF

National Exchange Bank of Milwaukee

One hundred fifty 00/100 Dollars

Value received and charge to account of

To W. E. Erwin M. A. Arden

No. 57 Due Kansas City, Kan.

W. E. Erwin owes M. A. Arden. M. A. Arden draws a sight draft on W. E. Erwin in favor of the National Exchange Bank and gives it to the bank for collection. The National Exchange Bank sends it to some bank in Kansas City for collection. When the Kansas City bank makes collection, it credits the Milwaukee bank. The Milwaukee bank then gives M. A. Arden credit.

Banks rarely take sight drafts for deposit. In many cities they are prohibited from doing so by the rules of the Clearing House.

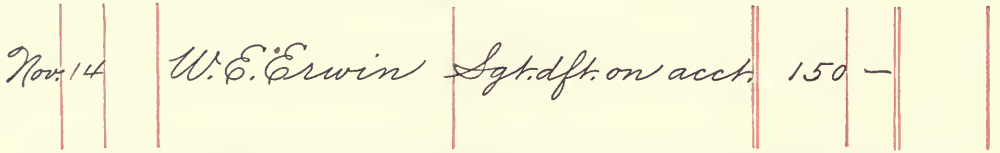
In your business practice work, sight drafts will always be left for collection. They will never be taken for deposit.

Should the Kansas City bank fail to make collection, it would return the draft to the Milwaukee bank with the reason why collection could not be made marked on a printed blank used by banks for that purpose.

The draft is then worthless, but the drawer must pay a small charge to the bank for the expenses incurred in trying to make collection.

When the draft is drawn in favor of the drawer or in favor of a bank, no entry is made by the drawer until the bank reports the draft collected. He then makes an entry as follows:

DRAWER'S CASH RECEIPTS



THE DRAWEE'S ENTRY is the same as that for a three-party draft, Drawer to Cash.

Rule for the Drawer of a Two-party Draft. THE DRAWER'S ENTRY in the cash book after the draft has been collected is, Cash to Drawee.

Exercise 33. Draw the necessary papers and make the entries that would be made by each party to the transaction. It is to be understood in each case that the draft is honored.

January 2. Draw a sight draft on D. Ware, Detroit, Mich., in favor of G. Laws, Grand Rapids, Mich., for $235, on account.

8. P. M. Mann orders an invoice of goods of M. Field & & Co., Chicago, amounting to $437.25. He buys a New York draft of the National Exchange Bank on Second National Bank, New York, by check. Exchange 50¢. Write both the check and the bank draft.

10. G. Smart sells an invoice of goods to B. E. Church, Chicago, amounting to $345.75. By the terms of the sale, a sight draft is drawn for $200 and collected through a bank.

12. D. Porter, Chicago, owes C. Murray, Columbus, Ohio, $750 on account. L. E. Gaines, Cleveland, Ohio, owes D. Porter $1200, on account. D. Porter cancels his indebtedness to C. Murray by a sight draft on L. E. Gaines.

18. H. Land, St. Paul, Minn., owes the student $225, which is long past due. Draw a draft to collect the account.

20. J. C. Shore wishes to make a remittance of $412.60 to Corson & Co., Chicago, by a Chicago draft. He draws a check on his bank for the amount of the payment and pays the exchange, $\frac{1}{10}\%$, in money. Write both the check and the bank draft.

CHAPTER XVIII

JOBBING FURNITURE

SET VI

The Objects of this set are as follows:

1. To teach the use of special columns in the cash book.
2. To provide a large number of transactions and of accounts so as to make the work like actual business.
3. To teach the use of new accounts that give more detailed information.
4. To give practice in the handling of the papers coming into the business and additional practice in making out the necessary papers that go out of the business.
5. To give extended practical work in dealing with the bank.

The Books of Entry to be used in this set are the journal, the cash book, the sales book, and the purchase book. In addition, an auxiliary book, the bill book, will be kept in which to record detailed information concerning notes, and later, time drafts.

The Journal. The Journal will be used in the same way as in previous sets. The explanation for notes need not be as complete as before, because the detailed information will be recorded in the bill book. For a note received from D. E. Roddy, the following explanation is sufficient: "*His note No. 2, per bill book.*"

The Cash Book. In most wholesale businesses, discounts on invoices of merchandise for prompt payment are frequent. To enter each one of these discounts on the opposite side of the cash book makes a great many entries and a great deal of posting. It has the disadvantage, too, of not showing on the cash book the actual cash received and paid out. To avoid that, a Merchandise Discount column will be kept on each side of the cash book.

In a study of the Cash Payments side of the cash book, it will be found that there are many entries for Expense. To avoid the necessity of posting each separate item, a special column will be kept for all amounts to be charged to Expense. These entries will be checked in the folio column

as they are entered, and not posted daily. The total of the column will be posted monthly to the debit of Expense.

CASH RECEIPTS, SEPT. 19—

DATE		F	ACCOUNT TO BE CREDITED	EXPLANATION	AMOUNT TO BE CREDITED	MDSE. DISCOUNT DR.	CASH RECEIVED
Sept.	1	√	J. A. Myers, Capital	Investment	2000 —		2000 —
	8		C. D. Felton	On account	375 —		375 —
	12		F. G. Bishop	Inv. of 3d, less 2%	436 —	8 72	427 28
	15		F. E. Zahn	Inv. of 5th	175 60		175 60
	18		W. H. Oliver	Inv. of 13th, less 3%	218 25	6 55	211 70
	22		Notes Receivable	B. I. Graham's note No. 5	450 —		450 —
	22		Interest	30 days on above	2 25		2 25
	29		Notes Payable	Favor Nat'l Ex. Bank No. 9	1000 —		1000 —
	30	√	Amount to be credited		4657 10		
	30		Mdse. Disc. Total			15 27	
							4641 83
Oct.		1	Balance	In bank	1828 48		1828 48

The first entry on the Receipts side is checked because the cash investment is entered in the journal with the other assets invested. It is posted to the credit of the proprietor as a part of the total in the journal. For that reason, it is not posted from the cash book.

The entry on the Receipts side on the 12th, for F. G. Bishop, is equivalent to the following:

Cash	$427.28	
Mdse. Discount	8.72	
To F. G. Bishop		$436

Each similar entry on the Receipts side means a debit of Cash, a debit of Merchandise Discount, and a credit for the sum to the account of the person making the payment. This is accomplished by posting the total of the Merchandise Discount column to the *debit* of Merchandise Discount. The "Cash Received" column takes the place of the debit side of the cash account in the ledger. No account need be kept in the ledger for Cash, but the balance of the Cash book will be taken for the Cash in the trial balance.

F. G. Bishop is credited for $436 with the notation in the explanatory column *Cash and Discount,* as follows:

F. G. BISHOP

19–						19–				
Sept.	3	S	1	436 —		Sept.	12	Cash & Disc.	2	436 —

On the Payments side, the entries for cash and discount may be explained on the same principle.

CASH PAYMENTS, SEPT. 19—

DATE		F	ACCOUNT TO BE DEBITED	EXPLANATION	AMOUNT TO BE DEBITED	EXPENSE	MDSE. DISCOUNT CR.	CASH PAID
Sept.	2	√	Expense	Rent to 10/1, 19—		40 —		40 —
	5		Advertising	Herald Co.'s bill	27 80			27 80
	8		Delivery Expense	Auto Supply Co.'s bill	17 25			17 25
	9	√	Expense	Bill for printing		11 25		11 25
	12		E. Henry & Co.	Inv. of 7th, less 2%	875 60		17 51	858 09
	15		Freight In	C. M. & St. P. bill	56 20			56 20
	20		Notes Payable	Favor C. Irwin, No. 2	1000 —			1000 —
	20		Interest	60 days on above	10 —			10 —
	25	√	Expense	Stamps		5 —		5 —
	27		J. A. Biller	Inv. of 17th, less 3%	724 50		21 74	702 76
	29		Interest	30 days disc. on note No. 9	5 —			5 —
	30	√	Expense	Salaries		80 —		80 —
	30	√	Amount to be debited		2716 35			
	30		Expense Total			136 25		
	30		Mdse. Disc. Total				39 25	
	30		*Balance*	*In bank*				*1828 48*
								4641 83

The total of the Merchandise Discount column is posted to the *credit* of the Merchandise Discount account in the ledger. Each entry for Expense is checked in the folio column as it is entered and is not posted till the end of the month.

The Check Book. The left check stub should give detailed information about every deposit, collection, or charge. The total deposit or the proceeds of the collection should be entered on the right check stub and added to the previous balance. Each check drawn will be subtracted on the right check stub from the balance in the bank. The check book will thus at any time show the bank balance. No record is necessary on the left check stub for a check drawn, as the details on the right check stub are sufficient. The record on the left check stub should always be as nearly opposite the addition or subtraction on the right check stub of that particular record, as possible. (See appendix, page i, for a different method)

LEFT CHECK STUB

Aug.	8	G. L. Morrison's note collected	1500 —
		Less 1/10% col.	1 50
		Proceeds	1498 50

RIGHT CHECK STUB

Aug. 8 Collection	1498 50

How to Prove Cash. Cash is proved daily in actual business. To prove cash, the "Cash Received" column is added in pencil. The "Cash Paid" column is added in the same way. The difference is the cash balance.

If all cash received has been deposited, the balance of the check book should equal the cash balance. This rarely happens, however. To this must be added the cash on hand in the cash drawer whether in the form of money or cash paper, such as checks, bank drafts, or express or U. S. money orders.

The Sales Book. All sales of merchandise should be entered in the sales book. If the sale is for cash to a regular customer, the entry is made in the usual way in the sales book and posted to the customer's account. His account is then credited in the cash book in the usual way. If a sale is made for cash, less discount, the entry is made in the sales book in the usual way *without* deducting the discount. The entry for the cash received and the discount allowed is made in the cash book the same as if the cash had been received some time after the sale was made.

If a sale is made for cash to a person who is not a regular customer, the entry is made in the sales book the same as one to a regular customer without deducting the discount, but the entry is checked in the folio column. His account is credited in the cash book for the discount allowed and for the cash received, and checked. No ledger account is opened up. The effect of these two entries is to debit Cash and Merchandise Discount and to credit Sales. Sales is credited monthly for the total.

The Purchase Book. The two-page purchase book will be used in this set. The left page will be used as a book of entry in which to enter all purchases of merchandise whether for cash or on account. Cash purchases from persons with whom the business has regular dealings are entered and posted. Cash purchases from others may be checked and no account opened up in the ledger. . Purchases is debited monthly.

The right page of the purchase book will be used as a memorandum page to give information concerning when the invoice should be paid in order to take advantage of the discount, when it should be paid, net, and when and how payment is made. The right page is not posted, as all payments must be entered in the cash book or journal and posted from these books.

LEFT PAGE — MODEL PURCHASE BOOK

INV. NO.	DATE		F	NAME	ADDRESS	TERMS	AMOUNT	
1	Aug.	1		S. Price & Co.	Toledo, Ohio	Net 30 days	1725	80
2		7		Grover Fur. Co.	Des Moines, Iowa	2/10, n/30	926	75
3		10	✓	C. L. White & Co.	Grand Rapids, Mich.	Cash, less 2%	1736	40
4		15		D. G. Jackson & Co.	New York	Note, 30 days	1172	35
5		20		M. Scott & Co.	Chicago	Sight dft.	842	15
6		25		F. A. Vance Co.	Milwaukee	3/5, 2/10, n/30	1372	80
						Purchases Dr.	7776	25

RIGHT PAGE

WHEN DUE				PAYMENTS						REMARKS
BEST DISCOUNT		NET		WHEN PAID		DISCOUNT		AMOUNT PAID		
		Aug.	31	Aug.	31			1725	80	Ck. No. 86
Aug.	17	Sept.	6		17	18	54	908	21	Ck. No. 62
	10				10	34	73	1701	67	Ck. No. 47
		Aug.	15		15			1172	35	Note at 30 days
			20		20			842	15	Sight draft
	30	Sept.	24		30	41	18	1331	62	Ck. No. 81

The Invoice Book. Another method of entering purchases is by using

INVOICE BOOK

Forward 5316 40

Chicago, Ill., Sept. 26, 19—

M essrs. E. D. Clarke & Co.
Detroit, Mich.

TO

14 **Morrison & Davis,** Dr. 417 25

Terms 2/10, net 30 days.

Milwaukee, Wis., Sept. 27, 19—

M essrs. E. D. Clarke & Co.
Detroit, Mich.

BOUGHT OF

16 **L. N. Porter & Co.** 312 40

Terms Sight draft

New York, Sept. 29, 19—

13 **Fischer Furniture Company** 248 75

Sold To

M essrs. E. D. Clarke & Co.
Detroit, Mich.

Terms 3/5, 2/10, net 60 days.

✓ 5	Oak Library Tables #785	13 75	68 75 ✓
✓ 36	" Dining Chairs #510	2 75	99 — ✓
✓ 12	Mahogany Music Cabinets #915	6 75	81 — ✓ 248 75

6 Sept. 30 Purchases, Dr. 629 480

an invoice book. The invoice book is a book containing sheets of manila paper on which the invoices of merchandise bought are pasted. These invoices are pasted down on the lower corners only so that the items on the preceding invoice may be examined if necessary.

The posting from the invoice book is exactly the same as from the purchase book. In the invoice book illustrated on page 139 the closing entry is a debit to Purchases. Daily the amount of each invoice is posted to the credit of the account named and the page of the ledger put to the left of the name of the account.

Advantages of the Invoice Book. The principal advantages of the invoice book are the saving of time in entering and the advantage of having the complete invoice in one place for reference.

The Disadvantages are many.

1. The invoices are of different sizes and must be cut down or folded under. This gives the invoice book a ragged appearance.
2. If many invoices are received, the invoice book becomes heavy and bulky.
3. Tne invoice book does not show when an invoice should be paid to take advantage of the discount, and when and how it was paid.
4. The invoices are oftentimes difficult to find when they are wanted for reference.

When a purchase book is used, the invoices are filed in drawer files alphabetically or in monthly files in the order of their dates, so that they can easily be found.

The invoice book can be used to advantage only in a small business when few invoices are received.

This explanation is given here so that the pupil may understand how it is used in business.

The Bill Book. The bill book is an auxiliary book in which records

Notes

MODEL

NO.	WHEN RECEIVED		MAKER OR DRAWEE	INDORSER OR DRAWER	IN WHOSE FAVOR	FOR WHAT RECEIVED	WHERE PAYABLE	DATE		TIME
	19—							19—		
1	Aug.	1	L. Hasson	D. E. Martin	D. E. Martin	Investment	Natl. Ex. Bk.	July	22	60 da.
2		8	C. N. Evans		Martin & Kline	On acct.	Natl. Ex. Bk	Aug.	6	30 da.
3		10	N. Reber	C. Farwell	C. Farwell	Inv. of 3d	Natl. Ex. Bk.		9	15 da.

Notes

NO.	WHEN GIVEN		MAKER OR DRAWEE	INDORSER OR DRAWER	IN WHOSE FAVOR	FOR WHAT GIVEN	WHERE PAYABLE	DATE		TIME
	19—							19—		
1	Aug.	5	Martin & Kline		C. Stone	Inv. of 2d	Natl. Ex. Bk.	Aug.	5	60 da.
2		15	Martin & Kline	D. E. Martin	Natl. Ex. Bk.	Loan	Natl. Ex. Bk.		15	30 da.
3		15	Martin & Kline		F. Hanton	On acct.	Natl. Ex. Bk.		15	60 da.

are kept of notes and time drafts received and issued, and of their payment or disposal to some one. It is divided into two parts, *Notes Receivable* and *Notes Payable.*

Notes Receivable Book. In the Notes Receivable book is entered the details of all notes and other written promises of others received by the business. When these notes receivable are paid or otherwise disposed of, a record is made on the same line with the record made when the note receivable was received.

To Prove the Notes Receivable Book, list the notes receivable unpaid and find the total. This total should agree with the balance of the Notes Receivable account in the ledger. When a note is discounted it is paid so far as the business is concerned, as the business has sold it and no longer has any claim against the maker.

Notes Payable Book. In this book are recorded the details of all notes and other written promises issued by the business. Payments are recorded in the same way as for Notes Receivable. Prove the Notes Payable book by listing the unpaid notes payable. The total should agree with the balance of the Notes Payable account in the ledger.

SET VI. (Transactions for August 1-15)

August 1

D. E. Martin and H. L. Kline have today formed a copartnership agreement under the firm name of Martin & Kline, to engage in the Jobbing Furniture business at 435 State St.

Receivable

BILL BOOK

WHEN DUE													AMOUNT		INT. RATE	WHEN AND HOW DISPOSED OF					
	1	2	3	4	5	6	7	8	9	10	11	12				LEFT FOR COLLECTION		DATE PAID		REMARKS
19–									20				2000		6%	Sept.	15	Sept.	20	At bank. Int. $20
19–									5				375	80					5	By check
19–								24					218	15	6%			Aug.	14	Disc. at bank 36c.

Payable

WHEN DUE													AMOUNT		INT. RATE	WHEN AND HOW DISPOSED OF		
	1	2	3	4	5	6	7	8	9	10	11	12				DATE PAID		REMARKS
19–										4			1178	25	6%	Oct	4	Chgd. at bank. Int. $11.78
19–									14				1500			Sept.	14	8/15 Disc. at bank. Disc. $7.50
19–										14			750			Aug.	27	Prepaid by check. Disc.$6.00

SELLING PRICE LISTS FOR SET VI, AUGUST AND SEPTEMBER

ARTICLES	1	2	3	4	5	6	7	8	9	10	11	12
Brass Bedstead	17.25	17.90	17.00	17.85	17.35	17.95	17.15	17.30	17.05	17.40	17.10	17.70
B. E. Maple Dresser	15.85	16.35	16.40	15.90	16.25	15.95	15.75	16.00	15.80	16.05	15.70	16.30
Felt Mattress	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95
Hair Mattress	7.75	8.40	8.45	7.80	7.70	7.65	7.60	7.85	8.35	7.90	8.30	7.95
Kitchen Cabinet	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Mahogany Chiffonier	20.85	21.35	21.50	19.70	20.75	21.30	19.75	20.70	21.40	21.20	19.85	21.25
Mahogany Dresser	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Mahogany Dressing Table	18.10	18.90	18.50	18.95	18.30	18.55	18.80	18.35	18.45	18.85	18.05	18.40
Mahogany Lady's Desk	12.75	13.05	12.55	12.70	13.10	12.65	13.35	13.15	12.60	12.50	13.20	13.30
Mahogany Music Cabinet	5.60	5.50	5.25	6.00	5.65	6.05	5.45	5.85	5.30	5.35	5.95	5.40
Mahogany Parlor Suite	112.50	112.95	112.30	113.05	112.90	112.45	113.10	112.85	112.40	112.80	112.35	112.75
Mahogany Parlor Table	11.15	11.15	11.15	11.15	11.15	11.15	11.15	11.15	11.15	11.15	11.15	11.15
Mahogany Rocker	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95
Oak Chamber Set	45.00	45.70	42.50	45.75	45.45	45.80	45.10	45.65	45.55	45.05	45.60	45.15
Oak Davenport	23.40	23.80	21.90	23.50	21.80	21.70	23.45	23.85	21.95	23.55	23.90	21.75
Oak Desk Chair	2.85	3.30	3.40	2.90	3.10	2.75	3.15	2.95	2.85	2.70	3.00	2.80
Oak Dining Chair	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
Oak Dining Table	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25
Oak Library Table	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
Oak Sideboard	25.30	25.45	24.70	24.95	25.25	25.50	24.80	25.20	24.75	25.55	25.15	24.85
Morris Chair	22 60	22.80	22.75	23.00	22.50	22.95	22.65	22.40	22.85	22.70	22.45	22.90
Turkish Rocker	27.50	27.90	27.20	27.10	27.45	27.85	27.35	27.40	27.80	27.15	27.95	27.30
C. Walnut Bedstead	25.85	26.45	26.80	25.90	26.50	26.70	26.00	26.75	26.55	25.95	26.60	26.65
C. Walnut Chamber Set	125.00	126.00	135.00	140.00	127 00	136.00	128.00	137.00	139.00	129.00	130.00	138.00

SELLING PRICE LISTS, FOR SET VI, AUGUST AND SEPTEMBER (Continued)

ARTICLES	13	14	15	16	17	18	19	20	21	22	23	24	25
Brass Bedstead	17.45	17.20	16.85	17.50	16.95	17.55	16.80	17.75	17.60	17.80	16.90	17.65	18.00
B. E. Maple Dresser	16.10	15.60	16.55	16.15	15.55	16.20	16.45	16.25	15.65	16.50	16.30	15.60	14.95
Felt Mattress	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95
Hair Mattress	8.00	7.25	7.30	8.05	7.40	7.55	8.10	7.45	8.25	8.15	7.50	8.20	8.45
Kitchen Cabinet	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Mahogany Chiffonier	20.95	19.80	20.90	19.85	19.95	21.05	18.85	19.90	21.10	21.45	21.55	21.15	18.90
Mahogany Dresser	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Mahogany Dressing Table	18.05	19.10	18.75	19.15	18.60	18.10	18.25	18.70	18.15	18.65	18.20	18.50	19.15
Mahogany Lady's Desk	13.25	13.40	13.60	12.95	13.55	12.90	13.65	13.45	12.80	13.70	13.50	12.85	13.75
Mahogany Music Cabinet	5.70	6.15	6.20	5.80	5.55	5.75	6.20	5.75	5.95	6.10	5.60	5.65	6.25
Mahogany Parlor Suite	113.30	113.50	112.70	113.15	113.35	113.45	112.65	112.55	113.20	113.40	112.60	113.25	113.85
Mahogany Parlor Table	11.15	11.15	11.15	11.15	11.15	11.15	11.15	11.15	11.15	11.15	11.15	11 15	11.15
Mahogany Rocker	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95	8.95
Oak Chamber Set	46.05	44.80	45.20	45.40	44.95	45.25	45.85	44.90	45.30	44.75	45.90	45.35	46.10
Oak Davenport	21.50	21.30	23.60	21.40	21.65	21.55	23.65	23.95	21.50	23.70	21.45	23.75	21.60
Oak Desk Chair	3.20	2.95	3.05	2.95	3.10	3.05	3.35	3.15	2.90	3.20	3.00	3.25	3.35
Oak Dining Chair	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
Oak Dining Table	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25	21.25
Oak Library Table	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
Oak Sideboard	25.75	24.60	25.10	25.70	24.65	25.05	24.90	25.00	25.35	25.60	24.95	25.40	25.60
Morris Chair	21.90	21.70	22.35	21.95	21.80	22.55	21.85	23.10	21.50	22 30	21.65	23.15	22.25
Turkish Rocker	27.55	28.25	26.75	26.80	27.70	28.10	27.65	27.25	26.90	28.05	27.60	27.05	27.75
C. Walnut Bedstead	26.40	26.95	28.10	26.05	26.25	27.05	26.90	26.10	26.20	26.35	26.85	26.15	26.30
C. Walnut Chamber Set	120.00	134.00	116.00	119.00	121.00	131.00	124.00	132.00	118.00	123.00	117.00	133.00	122.00

August 1. D. E. Martin invests the following from the business which he has been conducting at 435 State St.:

Stock of furniture inventoried at $3725.25
Office and store fixtures inventoried at $374.75
1 Chase delivery truck, $1375
Cash, $2525

H. L. Kline invests the following:

D. L. Ellery's note for $2000, dated July 17, payable 60 days after date, with interest at 6%
Cash, $5995

The firm has employed the student as bookkeeper and stenographer at a salary of $50 per month, payable monthly.

Take the Articles of Copartnership from the Incoming Papers and study them. They have been made out in triplicate and each copy signed by each partner. The original is received by the business, and a duplicate is given to each of the partners.

How much does D. E. Martin invest?
How much does H. L. Kline invest?
What provisions are made in reference to withdrawals from investments?
What provisions are made in reference to monthly withdrawals and in reference to withdrawals of profits?
What is to be done with any part of the net profits not withdrawn?
What is said about the right of a partner to become a surety or guarantor?

After you have studied the articles of copartnership so that you are able to answer the above questions without referring to the agreement, file the articles of copartnership in the Miscellaneous file.

Entries. Make a memorandum in the journal to record the formation of the copartnership and each partner's investment.

Make a journal entry for D. E. Martin's investments. Include the cash in this entry, and check it in the folio column. You must name an account for each item invested. Explain each item on the line with the name of the account.

Take D. E. Martin's check from the Incoming Papers and enter it in the cash book or on a manuscript cash book as the teacher may direct. Place the check in the Cash envelope. The Cash envelope will be used for all money and for all commercial papers that will be taken by the bank for deposit.

Take the note and check for H. L. Kline's investment from the Incoming Papers. Notice that the note bears interest and is worth more than its face value. Compute the interest.

Make the entry for his investment. Your entry should have three debits. The cash must be entered in both the journal and cash book and checked. If your entries are correct, the credits to D. E. Martin, Capital and to H. L. Kline, Capital should be the same.

Make a memorandum in the journal recording the employment of the student as bookkeeper and stenographer at $50 per month.

Opening the Bank Account. Mr. Martin has, by agreement, been placed in charge of the finances of the partnership. He has arranged to open an account with the National Exchange Bank in the name of Martin & Kline. All deposits are to be made in the firm name and all checks are to be drawn by the student and signed *Martin & Kline by Student's name.*

Take the signature card from your envelope and sign it just as you will sign checks. Practice the signature before writing it on the signature card. Fill in the other information called for. Hand it to your teacher. You must sign checks in this way each time. Your teacher will refuse checks that are not properly signed.

Deposit the checks on hand. Make out the usual deposit ticket, listing each check and finding the total. Indorse each check on the back about an inch from the left hand end. All indorsements should be the same as the signature on the signature card.

Record this deposit in detail on the cover of the check book opposite to check stub No. 1. Make the record as follows:

Aug. 1 Deposit:
Checks:

D. E. Martin	$2525
H. L. Kline	5995
	$8520.

On the right check stub, write, *Aug. 1, Deposit $8520.*

The firm has leased the ground floor and basement of the store building at 435 State St., from J. A. Winton. Take the lease from the Incoming Papers and study it.

The one who owns the building is called the *lessor* and the one to whom the lease is given is called the *lessee.*

Who is the lessor?
Who is the lessee?
For how long a time is the property leased?
How much rent is to be paid?
How often?
What would the firm have to do if it wished to move before the expiration of the lease?
If a window should be broken, who would have to pay for a new one?
If the roof should leak, would the lessee have to repair it?

Pay the rent by check. Place this check and all others issued in the Bank envelope unless otherwise instructed. In business, the check would be cashed or deposited by the payee. It would be held by the bank till the end of the month, and then returned to the depositor with a statement of his account. The checks are placed in the Bank envelope so as to be in one place and ready for the making out of the bank statement at the end of the month.

File the lease in the Miscellaneous file after you understand its provisions.

August 3. This bill for blank books is received from the Baum Stationery Co. Pay it by check.

J. C. Reed, City, orders:

12 Brass Bedsteads
4 Mahogany Parlor Suites
6 Mahogany Parlor Tables
8 Oak Library Tables

Terms: On account.

Make out the invoice and make the entry.

Whenever an order is received, an invoice must be made out and the entry made in the sales book. The invoice should be folded lengthwise with the amounts outside, and placed in the Outgoing Papers envelope.

Special Instructions: The making out of the business papers is a very important part of your work in this set. The penmanship should be the best; every figure should be plain and distinct. The extensions on invoices should be carefully figured before entering the sale in the sales book. You should learn to do the extending mentally, as far as possible. No words or figures should be marked over. Your teacher will refuse all papers that have erasures or words or figures marked over on them. If an error is made, rule it out in red ink and correct it above.

C. P. Baker & Co., City, order:

10 Kitchen Cabinets
8 Mahogany Dressers
5 Oak Library Tables

Terms: 3/5, 2/10, net 30 days

This invoice is received from the Northwestern Furniture Co. Take the invoice from the Incoming Papers and check the extensions in pencil. Enter it in the purchase book. In the column for "Best Discount", write *Aug. 13*, and in the column for "Net," write *Sept. 2.* File the invoice in the Unpaid Bills file, after folding it lengthwise with the amounts outside.

Engage Chas. Lannon as deliveryman at $45 per month, payable monthly.

Make a journal memorandum.

August 4. The firm has taken out an insurance policy on its stock of furniture and on the office and store fixtures.

Take the insurance policy from the Incoming Papers and study it. This is a standard insurance policy prescribed by the laws of Wisconsin. The standard policy of other states is similar. The company that issues the policy is called the *insurer*; the one to whom it is issued is called the *insured.*

In what company has the firm insured?
What is the extent of the company's liability in case of loss by fire? This is called the risk.
How much must you pay the company for carrying this risk? This is called the premium.

How is the amount of the premium found?

Can the firm cancel this policy at any time? Would it get back any part of the premium?

Can the insurance company cancel this policy at any time? Would the firm get back any part of the premium?

What must the firm do in case of loss by fire in order to obtain the insurance?

How is the fire loss adjusted?

After you are able to answer these questions, file the insurance policy in the Miscellaneous file. Make a brief memorandum in the journal. Take the bill for the insurance premium from the Incoming Papers. You will notice that it includes the insurance on the motor truck, which would be recorded in a separate policy. Pay the bill by check. Charge the Insurance account.

The Insurance Account is debited for the premiums paid for insuring. The inventory, the value of the unexpired insurance, is found by taking 11/12 of the premium paid at the end of the first month, 10/12 at the end of the second, etc. The difference between the insurance premium paid and the inventory is the amount used, which is a loss. The unexpired insurance is, thus, an asset, and the expired premium is a nominal element, a loss.

Chas. Osgood, City, orders:

8 Mahogany Chiffoniers
5 Mahogany Music Cabinets
6 Mahogany Rockers

Terms: on account.

August 5. This invoice is received from Simmons, Gardner & Co. Take the invoice from the Incoming Papers, check it, enter, and file.

When should it be paid?

In what file should the invoice be placed?

Are you thinking out each transaction? Do not be satisfied to make out the necessary papers or to file the papers properly. You must understand each entry. You must think out each transaction to see how it is similar to other transactions that you have had, how different, and what the debit and credit effect is.

D. C. Lanning, City, orders:

12 Oak Dining Chairs
5 Mahogany Lady's Desks
6 C. Walnut Chamber Sets

Terms: account, 30 days.

B. L. Duncer, City, orders:

8 Kitchen Cabinets
12 Oak Dining Chairs

Terms: cash.

Make out the invoice and make the usual entry in the sales book. Take the check from the Incoming Papers and make the entry for it.

Why is this sale entered in the sales book? What account is debited in the sales book? What account should be credited in the cash book? In what envelope should the check be placed?

August 6. Take the coal bill from the Western Coal Co. from the Incoming Papers and check the extension. Pay it by check and make the entry. File the bill in the Paid Bills file.

Have you checked the entry in the cash book so that you will not post it until the end of the month in total?

Receive this check from J. C. Reed, to apply on account. Make the usual entry for this transaction.

This invoice is received from the Atlas Parlor Furniture Co. Notice the terms. They have drawn on us at sight. The draft will be presented through the bank later. Simply make the entry in the purchase book now. Do not mark it paid until you pay the sight draft.

Write a check in favor of cash for $2 to purchase stamps.

In what column of the cash book should this amount be entered?

C. L. Larson, City, orders:

6 Mahogany Dressers
12 Mahogany Parlor Tables
6 Oak Library Tables

Terms: 2/10, net 30 days.

Should the discount be deducted in the sales book? Why?

August 7. This bill for filing cabinets is received from the H. H. West Co. Take the bill from the Incoming Papers and pay it by check. This adds to the value of your office equipment. Do not enter it in the Expense column.

Hereafter, when you are told that an invoice, a bill, a check or other paper is received, you will find it in the Incoming Papers without specific reference to it. You must make the proper entry for each transaction. All payments are made by check.

Pay Simmons, Gardner & Co., on account, $500.

H. E. King, City, orders:

12 Brass Bedsteads
8 B. E. Maple Dressers
10 Mahogany Chiffoniers
4 Mahogany Parlor Suites

Terms: on account.

Make the entry on a new page of your sales book. Always leave two lines at the bottom of the page for forwarding. On the first line below the heavy lines at the top of the next page write *Forward* and the sum of the previous page. This may be put in pencil until you know that your amounts are correct. The date of this sale, August 7, should be written on the first or *heading* line of the page.

Deposit all checks on hand. Do not forget to indorse all checks. You must enter the details of this deposit on the left check stub opposite the addition on the right check stub.

August 8. Receive this check of C. P. Baker & Co., for invoice of

the 3d, less 3%. Turn to your sales book. Compute the discount on the sale. If the discount is an amount with a fraction one-half a cent or more, another cent must be added to the discount. If you compute it correctly, the check should equal the amount of the invoice less the discount. Make the entry on the Cash Receipts like the following:

August 8. D. E. Hines | Inv. of the 3d, less 3% | 425. | 12.75 | 412.25

This is equivalent to the following:

Cash	$412.25	
Mdse. Discount	12.75	
To D. E. Hines		$425

The bank presents a sight draft drawn by the Atlas Parlor Furniture Co. for the amount of the invoice received on the 7th. Compare the amount of the draft with the amount of your entry for the invoice. If it is correct, pay it by a check in favor of the bank. Take the draft to the bank with the check and have the draft canceled. Place the check in the Bank envelope.

Receive this check from Chas. Osgood, to apply on account.

Prove cash. Submit your proof, your cash book, and your check book to your teacher for correction.

August 10. D. G. Paxton, City, orders:

5 Kitchen Cabinets
10 Mahogany Rockers
5 Mahogany Dressers

Terms: cash, less 3%.

You receive the check in payment of the invoice, less discount.

Fill the order. Deduct the discount on the invoice so as to show how much was paid. Receipt the invoice.

Enter the invoice in the sales book without deducting the discount.

Enter the cash received and the discount allowed in the cash book. This is just as much an allowance of merchandise discount as if the sale had been made on one day and the cash received on another. The entry is made like the transaction illustrated on the 8th.

J. G. Hull, City, orders:

10 Brass Bedsteads
4 C. Walnut Bedsteads
5 Mahogany Parlor Suites

Terms: account, 30 days.

August 11. Receive this invoice of Bishop & Co. Do not forget to check the extensions and total before making the entry.

J. A. Reiss & Co., City, order:

12 Felt Mattresses
10 Mahogany Parlor Tables

Terms: 2/10, net 30 days.

Deposit all the checks on hand.

Have you entered the details of the deposit on the left check stub and added the amount deposited to the previous balance?

August 12. Pay this advertising bill of the Sentinel Co. Charge it to Advertising.

Advertising Account. A separate account will be kept with advertising to show the amount expended for this purpose. To this account will be charged advertising in a newspaper, magazine, or trade journal, and advertising in the form of circulars, bill board signs, painting signs on fences, etc. When circulars are sent out to the trade to advertise the business, the advertising cost includes not only the cost of the circulars, but also the cost of the envelopes, of the postage, and the cost of the time of the stenographer or clerk for filling in and addressing.

Give Simmons, Gardner & Co. a note for $250, payable 15 days after date, with interest at 6%, on account.

Make the entry in the journal and the record in the bill book. Do not write anything in any of the columns to the right of the "Interest Rate" column of the bill book. Place the note in the Outgoing Papers envelope.

Receive this invoice of the Klingman Furniture Co. Notice that the terms of the invoice require payment to be made at once by N. Y. draft.

Enter the invoice in the purchase book in the usual way, without deducting the 3%.

Buy a N. Y. draft from your bank for the net amount of the invoice. Exchange 50¢. Pay for the draft and exchange by check. Take the N. Y. draft from the Incoming Papers, indorse it properly, and place it in the Outgoing Papers envelope. Place the check in the Bank envelope.

Make an entry for the remittance and one for the exchange. Charge the exchange to Collection and Exchange.

Have you debited the Klingman Furniture Co.'s account for the same amount with which you credited their account in the purchase book? Does the amount of cash paid agree with the amount of the check?

Pay this bill of the Phoenix Printing Co.

August 13. Pay the Northwestern Furniture Co. for invoice of the 4th, less discount. Refer to the purchase book, and compute the discount. Write a check in payment. You will find an entry similar to this one in the Model Cash Book for this set. Do not forget to record the payment of the invoice in the purchase book. The invoice has been filed in the Unpaid Bills file. What should be done with it now?

A. Dorris, City, orders:

8 Brass Bedsteads
10 Hair Mattresses
6 Oak Chamber Sets

Terms: note for $250, payable in 10 days, with interest at 6%; balance on account.

Enter the invoice in the sales book for the full amount. Make the proper entry and record for the note.

August 14. Pay this freight bill for freight on incoming goods. Make the check payable to the railroad company. This is not a charge to expense. It is an added cost of the goods. Charge Freight In.

Give each partner a check for $25 for personal use. These withdrawals must not be charged to the capital accounts of the partners. Nothing should be entered in the capital accounts except permanent investments and withdrawals of part of the capital. These withdrawals are in anticipation of profits and are not withdrawals of capital.

Partners' Personal Accounts. Personal accounts of partners keep the temporary transactions of the partners separate and distinct from the permanent transactions.

Debit a partner's personal account for all withdrawals of money, merchandise, or other assets and for any bills paid by the business for the partner.

Debit a partner's personal account for his share of the net loss when closing the books.

Credit a partner's personal account for all salaries earned and not paid, for temporary loans to the business, and for all bills of the firm paid out of a partner's private funds.

Credit a partner's personal account for his share of the net profits when closing the books.

A partner's personal account may temporarily show an asset or a liability, but does not appear in that way in the statement of Assets and Liabilities. It is added to the capital account, if a credit balance, and subtracted from it if a debit balance.

Charge these checks to D. E. Martin, Personal and H. L. Kline, Personal, respectively.

August 15. Receive this check of C. L. Larson for the invoice of the 6th, less discount.

Have you made the entry so as to balance the debit to C. L. Larson's account from the sales book?

First Report. Take a report blank from your envelope. First, prove cash and record it on the report blank. Sort the papers in the Outgoing Papers envelope, list them on the report under the proper headings in the order of the dates, and find the sum of each kind. List the checks in the Bank envelope in the order of the numbers and find the total.

Hand in your report, the Outgoing Papers envelope, and the Bank envelope. Inspect all your papers before handing them in to see that there are no incomplete or carelessly written papers. *There should be no erasures.* The outgoing papers that are correct will be kept by your teacher. Those that are incorrect will be returned for correction. All the checks in the Bank envelope will be returned to you and kept till the end of the month unless the teacher has a special file in which to place them.

Present all your books, including the check book, to your teacher for inspection. When the books of entry are correct, you are ready to post.

Opening Ledger Accounts. Accounts should be opened up in a systematic order. First, the accounts that show assets or liabilities, chiefly, will be opened up, then, the accounts that show a nominal or profit and loss element, principally. Open the accounts, two on a page, as follows. Leave a place after each personal account for the address:

ACCOUNT	PAGE
D. E. Martin, Capital	1
H. L. Kline, Capital	1
Real Estate	2
Furniture and Fixtures	2
Delivery Equipment	3
Notes Receivable	3
J. C. Reed	4
C. P. Baker & Co.	4
Chas. Osgood	5
D. C. Lanning	5
B. L. Duncer	6
C. L. Larson	6
H. E. King	7
D. G. Paxton	7
J. G. Hull	8
J. A. Reiss & Co.	8
A. Dorris	9
J. C. Jenkins	9
K. L. Mears	10
G. L. Bennett	10
F. I. Barber	11
C. O. D. Account	11
Leave page 12 blank.	
D. E. Martin, Personal	13
H. L. Kline, Personal	13
Notes Payable	14
Northwestern Furniture Co.	14
Simmons, Gardner & Co	15
Atlas Parlor Furniture Co.	15
F. Bishop & Co.	16
Klingman Furniture Co.	16
E. J. Ranney Co.	17
Price Furniture Co.	17
Leave page 18 blank.	
Purchases	19
Sales	19
Merchandise Trading	20
Expense	20
Freight In	21

ACCOUNT	PAGE
Delivery Expense	21
Advertising	22
Insurance	22
Collection and Exchange	23
Interest	23
Merchandise Discount	24
Profit and Loss	25

New accounts will be opened up in September.

As you post, put the address of each customer and of each creditor after the name in the ledger.

Indexing. The first two pages of the ledger are ruled for indexing. Write or print each letter of the alphabet, as a heading, giving equal space to each letter with the exception of X, Y and Z, which are put together in one space.

Personal accounts should be indexed, under the proper letters, as follows:

Ray, C. J.	8
Brown & Co., J. I.	9
National Furniture Co.	10
City Furniture Co., The	12

Impersonal accounts containing two or more words should be indexed under the first, as:

Notes Receivable	5
Collection and Exchange	18

Posting. Post the entries for each day but do not post any totals from the books. No trial balance will be taken till the end of the month. Post in the following order:

1. Sales Book
2. Purchase Book
3. Cash Book
4. Journal

The work of August will be continued in Chapter XX.

CHAPTER XIX

HOW TO SHIP GOODS

In the wholesale and jobbing trade, most goods are shipped to out of town customers by freight. Whenever goods are shipped by freight, bills of lading are made out.

Bills of Lading. A bill of lading is a receipt given by the carrier to the shipper acknowledging the receipt of the goods and contracting to carry them.

Each firm that makes a business of making shipments by freight uses its own bills of lading with the name of the firm printed in. These are made out by the firm's shipping clerk and sent to the freight office of the railroad company or other carrier.

Straight Bills of Lading. A straight bill of lading is the one used for ordinary shipments to customers. It consists of three forms:

1. The Original Bill of Lading
2. The Shipping Order
3. The Memorandum

These are made out in triplicate by the use of carbon paper.

The Interstate Commerce Commission has prescribed uniform bills of lading to be used in all interstate shipments.

By order of the Commission, the following things must be observed in reference to straight bills of lading:

1. They must be $8\frac{1}{2}$ inches wide, but may be of any length.
2. The three forms must be printed on white paper.
3. The conditions of shipment prescribed by the Interstate Commerce Commission must be printed on the back of each of these forms.
4. The three forms must be as illustrated here. The original is given in full, while the heading only of the shipping order and of the memorandum is given. The original is made out as it would be filled in by the shipper's shipping clerk before sending it to the freight office. All other necessary items are filled in before being signed by the agent of the railroad company.

Original Straight Bill of Lading. The original straight bill of lading, together with the duplicates, is made and signed by the shipper per the

ORIGINAL STRAIGHT BILL OF LADING

Uniform Bill of Lading—Standard Form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908

CHICAGO & NORTH WESTERN RAILWAY COMPANY

STRAIGHT BILL OF LADING—ORIGINAL—NOT NEGOTIABLE

Shipper's No._____

Agent's No._____

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at Milwaukee, Wis. Aug. 10, 191—,

from C. Baker & Co. the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

*The Rate of Freight from*_____

*to*_____ *is in Cents per 100 Lbs.*

IF...Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special Per	IF Special Per.....

(Mail Address—Not for purposes of Delivery.)

Consigned to John C. Kores

Destination Springfield State of Ills. County of_____

Route_____ Car Initial_____ Car No._____

No. Packages	DESCRIPTION OF ARTICLES AND SPECIAL MARKS	Weight (Subject to Correction)	Class or Rate	Check Column
24	Dining Chairs			
30	Library Tables			
15	Chiffoniers			

If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $_____ to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.

Per_____

(The signature here acknowledges only the amount prepaid.)

Charges advanced:

$_____

C. Baker & Co. Shipper. _____ Agent.

Per M. N. S. Per_____

(This Bill of Lading is to be signed by the Shipper and Agent of the Carrier issuing same.)

SHIPPING ORDER

For use in connection with the Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787, of June 27, 1908

CHICAGO & NORTH WESTERN RAILWAY COMPANY

THIS SHIPPING ORDER must be legibly filled in, in Ink, in Indelible Pencil, or in Carbon, and retained by the Agent.

Shipper's No._____

Agent's No._____

RECEIVE, subject to the classifications and tariffs in effect on the date of issue of this Shipping Order,

at Milwaukee, Wis. Aug. 10, 191—,

from C. Baker & Co. the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

*The Rate of Freight from*_____

*to*_____ *is in Cents per 100 Lbs.*

IF...Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special Per	IF Special Per.....

MEMORANDUM

For use in connection with the Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787, of June 27, 1908

CHICAGO & NORTH WESTERN RAILWAY COMPANY

THIS MEMORANDUM is an acknowledgment that a bill of lading has been issued and is not the Original Bill of Lading, nor a copy or duplicate, covering the property named herein, and is intended solely for filing or record.

Shipper's No._____

Agent's No._____

RECEIVED, subject to the classifications and tariffs in effect on the date of the receipt by the carrier of the property described in the Original Bill of Lading,

at Milwaukee, Wis. Aug. 10, 191—,

from C. Baker & Co. the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

*The Rate of Freight from*_____

*to*_____ *is in Cents per 100 Lbs.*

IF...Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special Per	IF Special Per.....

shipping clerk. It is taken with the duplicates to the freight office. The rate, the classification, and the weight are filled in by the freight agent and the bill of lading is signed by the freight agent. Oftentimes these items are filled in by the shipping clerk, or traffic manager of the shipper and simply checked by the freight agent, or some of them may be left blank.

The original straight bill of lading is given to the shipper and by him sent to the consignee. If the consignee is not known, he must present the bill of lading before he can get the goods. It is not negotiable.

The Shipping Order is signed by the shipper and retained by the railroad company.

The Memorandum is signed by both the shipper and by the agent of the transportation company. It is retained by the shipper for reference should any claim arise in reference to the shipment.

Sometimes the shipper retains the original bill of lading and sends the memorandum to the consignee. This is not usually done except when the shipper guarantees the proper delivery of the shipment at its destination. Ordinarily when the goods are delivered to the railroad company and a straight bill of lading is obtained, the shipper's responsibility ceases. The transportation company becomes the agent of the buyer in the transportation of the goods.

Freight C. O. D. Shipments. When an order for goods is received from a person whose financial standing is not known, or when the financial responsibility of the customer is questioned, goods are usually sent C. O. D., or, when a new customer whose credit standing has not yet been ascertained wants the goods at once, they may be sent C. O. D.

The object of any C. O. D. shipment is to retain the title to the goods, and to prevent the consignee from obtaining the goods until they are paid for.

Order Bill of Lading. When goods are sent by freight, C. O. D., an Order Bill of Lading must be made out. It is similar to the straight bill of lading in size, conditions on the back, description of the articles, places for the signatures, etc., but differs in the heading.

It differs from the straight bill of lading, in several respects.

1. It is "Consigned to order of" the shipper or a bank as agent for him.

2. The name of the person to whom the goods are to be shipped is written after "Notify."

3. The order bill of lading is negotiable.

4. The original must be printed on yellow paper and the duplicates on blue paper. The original order bill is illustrated on the next page.

How to Ship by Freight, C. O. D. The necessary steps are as follows:

1. The invoice is made out in the usual way, with the exception of the terms, which are "Order of.....Bank". This invoice is sent direct to the customer by mail.

2. An Order Bill of Lading is made out to the order of the shipper's bank or of the shipper himself.

3. A sight draft is drawn on the customer in favor of the shipper's bank or in favor of himself and indorsed to the bank.

4. The sight draft attached to the bill of lading is given to the shipper's bank for collection.

ORIGINAL ORDER BILL OF LADING

Uniform Bill of Lading—Standard Form of Order Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908

CHICAGO & NORTH WESTERN RAILWAY COMPANY

Shipper's No._____

ORDER BILL OF LADING—ORIGINAL

Agent's No._____

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at Milwaukee, Wis. Sept. 30, 191—,

from Gross Howe Co. the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER Bill of Lading properly endorsed shall be required before the delivery of the property. Inspection of property covered by this bill of lading will not be permitted unless provided by law or unless permission is indorsed on this original bill of lading or given in writing by the shipper.

*The Rate of Freight from*_____

*to*_____ *is in Cents per 100 Lbs.*

F...Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special Par	IF Special Par.....

Consigned to ORDER OF National Exchange Bank (Mail Address—Not for purposes of Delivery.)

Destination Milwaukee State of Wis. County of_____

Notify Chas. L. Powell

At Ft. Wayne State of Ind. County of_____

Route_____ Car Initial_____ Car No._____

No. Packages	DESCRIPTION OF ARTICLES AND SPECIAL MARKS	Weight (Subject to Correction)	Class or Rate	Check Column
15	Dressers			
8	Rockers			
10	Writing Desks			

If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $_____ to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.

Per_____

(The signature here acknowledges only the amount prepaid.)

Charges advanced:

$_____

Gross Howe Co. Shipper. _____ Agent.

Per D. E. K. Per_____

(This Bill of Lading is to be signed by the Shipper and Agent of the Carrier issuing same.)

This method of making shipment is also known as "shipper's order" and as "draft, with bill of lading attached."

How Collection is Made. The bank sends the draft with bill of lading attached to a bank in the city where the consignee resides. It indorses both the order bill of lading and the draft to that bank. When the draft, with bill of lading attached, reaches the correspondent bank, the bank sends a notice to the consignee giving details of the draft and bill of lading, and asking him to pay it. He pays the draft and receives the receipted draft and the order bill of lading indorsed to him. He then takes the order bill of lading to the freight office and receives the goods.

The correspondent bank usually credits the home bank and the home bank then gives the shipper, the drawer of the draft, credit for the amount of the draft, less collection charges. Sometimes a bank draft is issued by the correspondent bank instead of sending the credit.

Entries for Freight, C. O. D. One account is kept for all shipments by freight, C. O. D. In the sales book, C. O. D. Account is charged, followed by the name of the buyer.

		5			
	C. O. D. Account				
	J. O. Hunter, Gary, Ind.				
	Terms: Order of Natl Ex. Bnk				
	5 Oak Library Tables #785	15.25	78 75		
	12 Oak Dining Chairs #546	2.25	27		105 75

This is posted to the C. O. D. Account in the ledger as follows:

C. O. D. Account

19–					
July 5	J. O. Hunter, S	24	105 75		

When the credit is received from the bank, C. O. D. Account, with

the name of the customer, is credited on the cash receipts. It is posted to the credit side of the C. O. D. Account and the customer's name put in the explanatory column.

Express C. O. D. Shipments of goods that are not bulky are often made by express. If the shipper wants to be sure of receiving his money before the goods are delivered, he may send them by express, C. O. D. The method of making shipment and of collecting the money differs from freight, C. O. D. principally because express companies will make shipments and also make the collection for the shipper.

The steps necessary are as follows:

1. The invoice is made out, receipted, and placed in a C. O. D. envelope. You will find C. O. D. envelopes in your envelope of Business Forms. Take one and study it.

2. The articles shipped must be marked with the letters "C. O. D." and with the amount to be collected.

3. The shipper may fill out the C. O. D. envelope or it may be done by the agent of the express company. On the back of the envelope fill in the following: (1) "Goods Shipped to", with the address, (2) "Amount of Bill" and (3) "Shipper's Instructions", if any. Under the last heading the shipper may instruct the express company to collect the charges for the return of the money, or to take them out of the amount collected. He may also instruct the company to allow the consignee to examine the goods if he wishes. It is understood that the charges for the return of the money are to be paid by the consignee unless the shipper gives different instructions.

On the face of the envelope the name and address of the shipper are written.

4. Collection is made as follows:

The express envelope is sent by express to the express office in the city where the consignee resides. Notice is given the consignee by mail and he calls at the express office, pays the invoice and charges, and receives the goods, or, the collection and delivery may be made by the regular express messenger at the consignee's place of business.

5. Remittance is made as follows:

The express company issues an express check on its main office payable to the order of the shipper. This is mailed in the same C. O. D. envelope to the shipper whose address is already on the face of the envelope. The proceeds of C. O. D. shipments must be remitted to the shipper within 24 hours after collection has been made.

Sometimes the money is placed in the C. O. D. envelope and returned to the express office from which it was billed. It is then paid to the shipper.

Entry for Express C. O. D. The entry is made in the same way as for a freight C. O. D. sale except that the terms are different. If the shipment is given to the American Express Co., the terms would be "American

Express Co. Collect." It is posted to the same C. O. D. Account as for freight C. O. D. and the buyer's name written in the explanatory column.

Exercise 34. Make the entries on journal paper for the following transactions, using the same trading accounts that you have been using in Set VI.

January 1. Paid for freight on purchases, $97.80.
3. Paid for packing boxes, $13.85.
5. Chas. Smith returned goods worth $25.80.
6. Darber & Co. allowed our claim for an overcharge on goods bought, $36.80.
8. The railroad company has allowed us a cash rebate for an overcharge on our freight bill, $11.50.
10. Paid a merchandise broker $36.50 commission for buying goods.
15. C. Monton, the proprietor takes goods at cost, valued at $27.50, for personal use.

Credit this to Purchases.

18. N. Norris is allowed a claim of $18.15 for damaged goods.
22. Paid for packing material, $8.95.
25. Paid freight bill on purchases, $37.85.
26. B. L. Barrow & Co. allowed our claim for damaged goods, $31.45.
31. Paid shipping clerk's wages, $45.
31. The purchases for the month amounted to $8764.45.

Credit Accounts Payable to represent the sum of all the creditors' accounts.

31. The sales for the month amounted to $7954.60.

Debit Accounts Receivable to represent the sum of all the customers' accounts.

Exercise 35. On ledger paper, open the trading accounts and post the entries of the last exercise. Explanations should be written in the ledger accounts.

Use $2386.40 as the inventory of merchandise.

Close the trading accounts in the ledger. Transfer all red ink amounts to the proper place.

CHAPTER XX

JOBBING FURNITURE

SET VI

TRANSACTIONS FOR AUGUST 17-31

Continue all the books of entry in the same manner as for the first part of the month. Leave no space between the entries for August 15 and August 17.

August 17. Receive this invoice of the E. J. Ranney Co. A draft accompanies it.

Make the entry for the invoice in the usual way. Record it as paid by 15-day draft. Accept the draft, and make the entry and record for it. Return the draft to the E. J. Ranney Co. by putting it in the Outgoing Papers envelope.

Receive this check from D. C. Lanning, on account.

J. C. Jenkins, Dayton, Ohio, orders:

6 Brass Bedsteads
5 B. E. Maple Dressers
8 Hair Mattresses
15 Felt Mattresses

Terms: on account, 30 days.

Since this is a sale to an out-of-town customer, the goods will be shipped by freight. Make out a straight bill of lading in triplicate, detach and take the three copies to the freight office or to your teacher. You should sign in the name of the firm by your name.

The original bill of lading and the memorandum will be signed by the teacher for the railroad company or by some student designated by the teacher, and returned to you. The shipping order will be kept by the agent for the railroad company. Send the original bill of lading with the invoice to the customer. File the memorandum in the Miscellaneous file. You will follow the same method for each shipment to an out-of-town customer unless different instructions are given.

Receive this invoice of goods from the Price Furniture Co. Notice the terms. Make out the note according to the terms and make the entry and record for it.

Do not forget that an *entry* is a formal statement of the account or

accounts affected by a transaction. A *record* is something that gives additional information about details that can be omitted from the books of entry.

August 18. K. L. Mears, Syracuse, N. Y., orders:

6 Mahogany Chiffoniers
10 Mahogany Dressing Tables
5 Mahogany Music Cabinets
18 Mahogany Parlor Tables

Terms: sight draft for $300; balance on account.

Make out the invoice and the bill of lading in the usual way. Draw the sight draft on him in favor of National Exchange Bank and leave it at the bank for collection. No indorsement is necessary.

Banks have different methods of receipting for the commercial paper which is left by customers at the bank for collection. One method is to record all paper left for collection in the back part of the pass book, on a special page. That plan will be followed in your business practice work. Take the draft with your pass book to the bank and have it recorded on the last page of the pass book.

Other banks have printed forms on which they write the details of the paper received and give to the customer as a receipt.

Your bank will send this draft either direct or through a large bank in New York City to a bank in Syracuse. The Syracuse bank will notify K. L. Mears either by mail or by telephone and he will make payment. The Syracuse bank then sends back the credit and as soon as it is received by the National Exchange Bank, you will be given credit in your bank account.

C. P. Baker & Co., City, order:

18 Oak Dining Chairs
24 Oak Library Tables

Terms: cash, less 2%.

The check is received with the order.

For what amount should the sale be entered in the sales book?
Should the discount be deducted on the invoice?
Should the discount be entered in the cash book? Why?
Refer to a similar transaction on the 10th.

G. L. Bennett, Lansing, Mich., orders:

5 C. Walnut Bedsteads
6 C. Walnut Chamber Sets
6 Oak Davenports

Terms: note at 30 days for $500; balance, on account.

Make the entry for the sale in the usual way. The note will be received later.

Receive an invoice of goods from Simmons, Gardner & Co.

Enter the invoice in the usual way for the amount of the invoice, with-

out deducting the discount. The draft will be presented through the bank later.

Deposit all checks on hand.

August 21. Receive this check from J. A. Reiss & Co., for invoice of the 11th, less discount.

K. L. Mears reports that one Mahogany Chiffonier was broken in transit. He is returning it and asks you to give him credit for it.

Make out a credit memorandum for one Mahogany Chiffonier.

What was the debit and credit effect when the sale was made?

What effect should the entry for an allowance on a sale have on the same accounts? Make the entry in the journal. Explain the transaction in full.

Receive this note of G. L. Bennett, on account.

In what file should the note be placed?

F. I. Barber, Scranton, Pa., orders:

8 Morris Chairs
12 Oak Desk Chairs
6 Hair Mattresses
6 Oak Sideboards

Terms: on account.

A. Dorris, City, orders:

12 Brass Bedsteads
6 B. E. Maple Dressers
10 Mahogany Lady's Desks

Terms: on account.

August 22. The bank reports the sight draft on K. L. Mears collected. The bank made no charge for collecting the draft. Take your pass book to the bank and have the amount of this collection placed to your credit. You must make the entry the same as if you had received the money direct from K. L. Mears. Explain the collection on the left check stub and add the amount to the balance on the right check stub.

Mr. Martin has arranged with the National Exchange Bank to discount G. L. Bennett's note for $500 at the bank. Take the note from your Notes Receivable file and compute the discount for the unexpired time at 6%.

Make out a deposit ticket with the usual heading. Under "Checks" record like the following:

D. E. Hard's note disc.	$500.00
Disc. for 15 days	1.25
Proceeds	$498.75

Indorse the note by a special indorsement and take it to the bank with the deposit ticket and your pass book.

Make a full explanation of the transaction on the left check stub like the details on the deposit ticket, and add the proceeds to the balance in your check book.

Make the entries on the theory that you have received the face value of the note from the bank and have paid the bank the amount of the discount.

Study entries of the same kind in Chapter X before making the entries in the books.

In the bill book you must record the note as discounted with the date and the amount of the discount.

As A. Dorris' note will be due tomorrow, leave it at the bank for collection.

Indorse the note properly and take it to the bank with your pass book. Make a record of it in the bill book.

Pay Bishop & Co., on account, $500.

Prove cash and submit the proof with your cash book and check book to your teacher for examination.

August 24. The bank presents the sight draft drawn by Simmons, Gardner & Co., for the amount of the invoice of the 20th, less discount.

Pay it by check in favor of the bank. Make the entry the same as if you had paid the invoice, less discount, by check.

Receive this check from J. C. Jenkins, on account.

The bank reports that A. Dorris' note has been collected and placed to your credit. Make out a deposit ticket for the amount of the note and interest and have it entered in your pass book.

What entry should be made for the face of the note? For the interest? Have you made the records in the bill book and in the check book?

J. C. Reed, City, orders:

24 Oak Dining Chairs
10 Kitchen Cabinets
8 Oak Library Tables

Terms: 2/10, net 30 days.

K. L. Mears, Syracuse, N. Y., orders:

6 Mahogany Parlor Suites
12 Mahogany Rockers
3 Turkish Rockers

Terms: on account.

Are you making out a bill of lading for each out-of-town sale?

August 25. Receive this invoice from the Northwestern Furniture Co.

D. L. Green, Peoria, Ill., has given us information on which to give him credit. This information is in the hands of Mr. Martin, but investigation is not yet complete. Mr. Green has asked us to ship the following order by freight C. O. D., as he desires the goods at once:

5 Oak Sideboards at $25.30
6 Morris Chairs at $22.60
2 C. Walnut Chamber Sets at $125

Terms: order of National Exchange Bank.

Study carefully the explanation in Chapter XIX for this kind of shipments.

Make out an order bill of lading in triplicate. Draw a sight draft,

attach it to the original order bill of lading, and leave it at the bank for collection. The amount of the draft will be entered on the last page of your pass book.

What account is debited for this sale?

What is the object of an order bill of lading? Is it negotiable? How will your bank make collection? What would happen if Mr. Green should refuse to pay the draft?

August 26. Pay this bill of the Auto Supply Co.

What kind of a charge is this? Does it affect a real or a nominal account? Does it increase the value of the delivery equipment or simply maintain it? Do not charge this to the Equipment account, but open an account for Delivery Expense.

Delivery Expense. This account will be debited for the cost of all auto supplies necessary for the business and for all repairs and renewals. It should also be debited with the cost of the deliveryman's services.

Delivery Expense should be credited when any supplies that have been charged to Delivery Expense are sold and when the delivery equipment earns anything for the business.

Receive this N. Y. draft from K. L. Mears on account.

August 27. Write a check in favor of Cash for $3 and buy postage stamps. Do not forget to check the entry.

Mr. Martin informs you that Simmons, Gardner & Co. have notified the firm that a note in their favor with interest, is due today. Consult your bill book, compute the interest, and send a N. Y. draft in payment. Buy the N. Y. draft by check. Include exchange 25¢. The note will be receipted by your teacher for Simmons, Gardner & Co. and returned to you later.

Study this transaction carefully to see what accounts should be debited and what record should be made.

Receive this check from F. I. Barber to apply on account.

Deposit the checks and N. Y. draft on hand. The bank charges $\frac{1}{10}\%$ collection on all out-of-town checks.

Have you entered the details of the deposit in the check book?

Why doesn't the bank charge collection on N. Y. drafts?

F. I. Barber, Scranton, Pa., orders:

18 Oak Dining Chairs

12 Oak Library Tables

Terms: 2/10, net 30 days.

Receive this invoice from Bishop & Co.

August 28. The bank reports the draft with bill of lading attached, on D. L. Green, collected. Collection charge 75¢. Make out the usual deposit ticket and deduct the collection charge. Have it entered in your pass book.

What account was debited when the sale was made? What account must now be credited for the same amount?

Mr. Martin informs you that the firm has agreed with the owner of the building to purchase the store building and lot from him. In order

to provide the necessary funds, Mr. Martin has arranged with the bank to discount the firm's note, payable 60 days after date, for $5000.

Make the note payable to the bank. The bank has asked each partner to indorse the note as a further guaranty of its payment. Your teacher will indorse it for each of the partners.

Make out the deposit ticket, deduct the discount at 5% and find the proceeds.

Before taking the note to the bank you should make the proper record in the bill book for the note issued and discounted.

Take the deposit ticket and note to the bank and receive credit for the proceeds.

Make two entries for this transaction.

What account yields the value? What account costs the business value?
Have you entered the details of this transaction on the left check stub?

August 29. The firm has bought the building and lot located at 435 State St. for cash, $9275. As an evidence of the transfer of the property, the firm would receive a deed and the title to the property would be transferred on the books of the register of deeds or other officer to whom this duty is assigned. The deed is technical in form and meaning and will not be shown here.

The basement, first floor, and part of the second floor will be used by the firm. The rest of the second floor is leased to John Theiler at a monthly rent of $30.

Make a memorandum in the journal of the purchase, and of the lease to John Theiler. Pay the owner of the building, J. A. Winton, $9275. Debit the Real Estate account for this payment.

Real Estate Account. This is an asset account. It should be debited for the cost of land and buildings and for anything else that is an additional cost. An addition to the building would be an added cost. The difference between the value of a board walk and of a cement walk that replaces it is an added cost. Any expenditures for alterations when the building is purchased to be used by the business is an added cost.

It must not be debited for any repairs or renewals or for any other payments to keep up the property. It must not be credited for any income received from the property. No nominal element should enter into this account except a proper depreciation on the property on account of use.

Real Estate Expense and Income. This account should include all nominal elements that have anything to do with real estate. It is debited for all expenses of keeping up the property such as repairs, renewals, taxes, and insurance. It is also debited for any loss on the sale of the real estate. It is credited for all income received from the property in the form of rent or otherwise. It is also credited for any profit on the sale of the real estate.

Real Estate Expense and Income is a nominal account and shows a profit or a loss. In the ordinary mercantile business it usually shows a loss.

August 31. Pay this freight bill by check to the railroad company.

Returned two Oak Davenports to F. Bishop & Co. and received this credit memorandum.

What entry was made when the goods were purchased? Your entry now must be the reverse. Explain the entry fully.

Each partner withdraws $50 for personal use. Give them checks.

Pay each employee by check as follows:

Student, $50

Chas. Lannon, $45

Charge the salary of the deliveryman to Delivery Expense.

Since statements are to be made and the books closed, it will be necessary to transfer from Delivery Expense to Purchases the value of the services of the driver and the use of the delivery equipment for hauling incoming goods to the store room. Mr. Kline estimates that to be $15.75. Make an entry debiting Purchases and crediting Delivery Expense for $15.75. Explain the entry fully.

Second Report. Prove cash and make a report. Hand in your report together with your Outgoing Papers envelope and your Bank envelope. Submit all your books of entry and your check book to your teacher for examination.

CLOSING WORK

Closing Books of Entry. Study the model books of entry before closing.

Sales Book. Rule each page of the sales book and forward to the top of the next page. Close the sales book at the end of the month by ruling it up and writing in the account to be credited for the total.

Purchase Book. Rule the purchase book and write in the account to be debited for the total.

Cash Book. Balance the cash book according to the form given in the Model Cash Book. (Pages 136 and 137)

Journal. No ruling is necessary, but each column of the journal may be added to see that they are equal.

Posting. 1. Post the sales book. Do not forget the pages to show the posting of the daily sales and of the total. Remember that we no longer keep a Merchandise account. To what account should the total be credited?

2. Post the purchase book. Do not forget the proper posting of the total and the paging.

3. Post the cash book. The daily entries will be posted as heretofore. Study the posting of the totals.

To which side of the Merchandise Discount account should the total of the Merchandise Discount column on the Cash Receipts be posted? Why?

To which side should the total of the Merchandise Discount column on the Cash Payments be posted? Why?

How should the total of the Expense column be posted? Do not post the total cash received nor the total cash paid out to the ledger. No Cash account will be kept in the ledger in this set but the cash balance for the trial balance will be taken from the cash book.

4. Post the journal in the usual way.

Statements of Account. A statement of account is a statement to a customer of his dealings with the business. It is usually sent to all customers that owe the business. It is sent out monthly and is generally dated the

Statement of Account

Milwaukee, Wis., Aug. 31, 19—

Mr. D. L. Miller,
La Crosse, Wis.

IN ACCOUNT WITH

C. N. Bell & Company

Aug.	1	Balance per statement	317	20		
	8	To Mdse.	112	40		
	15	" "	257	25	686	85
		Cr.				
Aug.	8	By Cash	250	—		
	12	" Mdse. returned	16	50		
	25	" Note at 10 da.	200	—	466	50
					220	35

last day of the month. The object of the statement is to enable the customer to compare his account with the statement and to make any corrections necessary. It is not necessarily a dun for the money, but where the terms of payment show that the purchase is due it acts as a reminder to the customer.

In the wholesale and jobbing trade, itemized invoices are rendered for each sale made. The statement of account does not show the items sold but is simply a statement of the invoices rendered and of the credits on account.

In the retail trade, it is customary to send an itemized statement of account, showing all the items of merchandise sold and the credits on account.

In the statement of account illustrated there is a balance from the previous month, which is the first item of the debit. In rendering statements to customers for August, you will have no balance August 1.

Render statements of account to all customers that owe you. Use your ledger accounts and refer back to the book of original entry whenever necessary.

To Prove the Bill Book. To prove the Notes Receivable book, list the unpaid notes by number and amount. The sum of these unpaid notes should equal the balance of the Notes Receivable account in the ledger. If it does not prove, check the notes entered with the debit side of the ledger and those paid with the credit side. Prove the Notes Payable book on the same principle.

Trial Balance. Take a Trial Balance. Do not forget that the cash book is the cash account.

Inventories, August 31, 19—

Merchandise:

15 Brass Bedsteads
21 B. E. Maple Dressers
48 Felt Mattresses
31 Hair Mattresses
22 Kitchen Cabinets
26 Mahogany Chiffoniers
19 Mahogany Dressers
20 Mahogany Dressing Tables
5 Mahogany Lady's Desks
5 Mahogany Music Cabinets
7 Mahogany Parlor Suites
29 Mahogany Parlor Tables

12 Mahogany Rockers			
19 Oak Chamber Sets			
20 Oak Davenports			
24 Oak Desk Chairs			
36 Oak Dining Chairs			
27 Oak Library Tables			
4 Oak Sideboards			
6 Morris Chairs			
3 Turkish Rockers at $21.80. None bought in August.			
3 C. Walnut Bedsteads			
2 C. Walnut Chamber Sets			
Freight In on goods unsold,			$113.50
Real Estate, at cost			
Expense, 8 tons coal at $5.15			
Delivery Equipment:			
Cost	$1375.00		
Depreciation 2%	27.50		
Inventory			$1347.50
Furniture and Fixtures:			
Cost		$411.25	
Depreciation:			
2% on $374.75	$7.50		
1% on 36.50	.37	$7.87	
Inventory			$403.38
Insurance, unexpired			63.20

Copy these inventories in your blank books after the merchandise inventory has been corrected.

Trading and Profit and Loss Statements. The statements to be made out in this set are more detailed and contain a much greater number of accounts than those of previous sets. Since the object of these statements is to give information to the proprietors of the business, they should be in a systematic form that can readily be understood.

The statements will be made out in two sections: the Trading and the Profit and Loss sections. The Trading section includes that part of the statement that has to do with the cost of the goods sold and the returns from sales. The Profit and Loss section includes all other profits and losses of the business. The selling expenses are separately shown in this section.

The statements here illustrated show the statements of a business that has continued from a previous month. Study this form carefully. In making out statements for August, you will enter the value of the goods invested by Mr. Martin in place of the inventory of November 1, 19—, shown in the statement.

Trading and Profit and Loss Statements for the month ending Nov. 30, 19—

Returns:					
Gross Sales		8725	50		
Less Returns and Allowances		136	75		
Net Sales				8588	75
Costs:					
Inventory, November 1, 19—		5317	15		
Purchases	$7328.45				
Less Returns and Allowances	96.20				
Net Purchases		7232	25		
		12549	40		
Less Inventory, Nov. 30, 19—		5032	95		
Prime cost of goods sold		7516	45		
Freight In		93	60		
Total cost of goods sold				7610	05
Gross trading profit down				978	70
Profits:					
Gross trading profit brought down		978	70		
Mdse. Discount Allowed:					
To us	$107.80				
By us	75.40				
Profit		32	40		
Total profit				1011	10
Losses:					
Selling Expenses:					
Delivery Expense		46	80		
Advertising		35	—		
General Expense Dr.	$340.70				
Less Inventory	26.30	314	40		
Collection and Exchange		7	75		
Interest		8	50		
Insurance Dr.	$167.45				
Insurance unexpired	58.20				
Insurance used		109	25		
Real Estate Expense and Income		35	15		
Depreciation:					
Of Real Estate		21	50		
Of Delivery Equipment		13	25		
Of Furniture and Fixtures		7	10		
Total losses				598	70
Firm's Net Profit				412	40
C. Hass' Net Profit		206	20		
B. E. Hall's Net Profit		206	20		
Firm's Net Profit				412	40

Make Trading and Profit and Loss statements for August.

Statement of Assets and Liabilities, Nov. 30, 19—

Assets:					
Real Estate Cost	$10500.00				
Less depreciation	21.50				
		10478	50		
Furniture & Fixtures cost	$312.50				
Less depreciation	7.10	305	40		
Delivery Equipment cost	$976.25				
Less depreciation	13.25	963			
Mdse. Inventory		5032	95		
Insurance, unexpired		58	20		
Expense Inventory		26	30		
Notes Receivable		1075	60		
Accounts Receivable:		5732	25		
J. Carter	$1378.90				
C. Stafford	1589.25				
D. Winton & Co.	846.50				
J. Campbell	1917.60				
Cash		3458	20		
Total assets				27130	40
Liabilities:					
Notes Payable		2500	—		
Accounts Payable:		4378	—		
Clemens & Co.	$1768.00				
D. Prentice	2146.00				
J. Hardy	464.00				
Total liabilities				6878	—
Firm's net worth				20252	40
Proof:					
C. Hass' investment		10000	—		
C. Hass' net profit		206	20		
		10206	20		
Less C. Haas, personal		85	—		
C. Hass' net worth				10121	20
B. E. Hall's investment		10000	—		
B. E. Hall's net profit		206	20		
		10206	20		
Less B. E. Hall, personal		75	—		
B. E. Hall's net worth				10131	20
Firm's net worth				20252	40

Statements of Assets and Liabilities. The form of the statement of Assets and Liabilities for this set differs little from the statement in previous sets. The principal difference is that in those assets that show a depreciation, the cost, the depreciation, and the present value must be shown.

The arrangement of the assets should be according to a definite order. The arrangement given on page 172 begins with the most permanent assets and ends with cash.

Make a statement of Assets and Liabilities for August 31.

Test the correctness of the statements by finding the Net Worth of each partner. The sum of the net worths of D. E. Martin and H. L. Kline should equal the firm's net worth on the statement of Assets and Liabilities.

Closing the Ledger. Close all accounts that have a nominal or Profit and Loss element in them. All of these accounts are found in the Trading and Profit and Loss statements. Use your statements as guides in closing the ledger. Study Chapter XVI again before beginning to close.

1. Close the trading accounts as follows:
   a) Freight In
   b) Purchases
   c) Sales
   d) Merchandise Trading

2. Close all the accounts in the Profit and Loss statement in the order that they occur in the statement.

To close accounts that show a depreciation:

a) Enter the inventory in red ink on the credit side.

b) The difference between the debit and credit sides is the depreciation or loss.

c) Enter *Profit and Loss* in red ink on the credit side and the amount of the difference.

d) Rule the account.

e) Bring the inventory down on the debit side in black ink, dating it the first day of the next month.

f) Carry the Profit and Loss item to the debit side of the Profit and Loss account, writing in the name of the account from which it was transferred.

3. Close the Profit and Loss account by entering the amount of each partner's profit in red ink on the debit side. Transfer each partner's profit to the credit side of his personal account.

4. Close each partner's personal account into his capital account as follows:

a) Enter the balance in red ink on the debit side under the name of the capital account, as, *D. E. Martin, Capital.*

b) Rule the account.

c) Transfer the balance in black ink to the credit side of the capital account, writing the name of the partner, personal.

5. Close the capital accounts as you have before by net worth. Take a proof trial balance of the ledger after closing.
Write up the bank statement from your pass book and your checks.
Submit all of your books to your teacher for inspection.

ANALYSIS OF RESULTS

Every progressive business man desires more information about his business than simply the results of the Trading and Profit and Loss statements. He wishes to make comparisons month by month and year by year. The best way to do this is by computing percentages.

Some of the most important per cents are found as follows:

$$\text{Per cent of Gross Trading Profit} = \frac{\text{Gross Trading Profit}}{\text{Cost of Goods Sold}}$$

$$\text{Per cent of Net Profit on Investment} = \frac{\text{Partner's Net Profit}}{\text{Partner's Investment}}$$

$$\text{Per cent of Net Profit on Total Cost} = \frac{\text{Net Profit}}{\text{Cost of goods sold} + \text{all expenses of selling and administration}}$$

Exercise 36. The following per cents are to be found by using the results of your August work.

1. Find the per cent of gross trading profit.
2. Find the per cent of net profit on the total cost.
3. Find the per cent of net profit on D. E. Martin's investment.
4. Find the per cent of delivery expense on the sales.
5. Find the per cent of returns and allowances on sales.
6. Find the per cent of total expenses on the total cost.

Exercise 37. On journal paper, make the memorandum and the journal entries for the following:

G. C. Varden and L. N. Worth formed a copartnership, August 1 to engage in the wholesale hardware business.

G. C. Varden invested the following assets and liabilities:

Cash, $1725
Store building and lot, $8720
Rent due from tenants, $45
Motor truck, $1285
Gasoline and other motor truck supplies, $15
Merchandise, per inventory, $4785.25
C. Evans' note for $875, dated July 11, payable 60 days after date, with interest at 6%

John Cary owes on account, $987.50
G. C. Varden owed B. Edgar on account, $715
He owed a note in favor of Farrar & Co., for $6000, dated June 25, payable 3 months after date.
L. N. Worth invested the following assets and liabilities:
Cash, $2125
Office Furniture, $62.75
C. & N. W. R. R. Stock, 20 shares at $108\frac{1}{2}$
Merchandise, per inventory, $6316.20
H. I. Haines' note for $3756.25, dated July 8, payable 60 days after date
D. E. Barber's note for $2115.75, dated June 16, payable 3 months after date, with interest at 6%
L. N. Worth owed a note in favor National Exchange Bank for $2500, dated July 21, payable 30 days after date.
He owed a note favor of F. A. Hills for $575, dated July 22, payable 30 days after date, with interest at 6%.
Wherever discount is to be computed, 6% is to be used.

Exercise 38. Make the entries on journal paper for the following transactions. Use the same trading accounts that you have been using in Set VI.

May 2. Paid for freight on purchases, $107.50.
5. Paid for packing material, $11.25.
8. Allowed M. Spreng's claim for damaged goods, $15.20.
15. Returned goods to C. Brennan valued at $31.85.
17. Goods were taken from stock for use in the store, $7.50.
20. Allowed N. Rice's claim for overcharge, $6.75.
25. Paid freight on purchases, $112.45.
28. Benton & Co. allowed our claim for shortage, $12.75.
30. The railroad company refunded $8.20 as an overcharge on the freight bill of the 25th.
31. The purchases amounted to $10,175.40.
31. The sales amounted to $8432.65.
31. Transfer to Purchases from Delivery Expense, $37.85, the value of the services rendered in hauling purchases to the warehouse.
31. Paid shipping clerk's wages, $40.

Exercise 39. Open the trading accounts on ledger paper.

1. Enter the inventory of merchandise on hand, May 1, $2138.25.
2. Post the entries to the trading accounts.
3. Use $6078.75 as the inventory of merchandise on hand May 31. Make a trading statement.
4. Close all trading accounts.

Exercise 40. a) From the following trial balance and inventories, make Trading and Profit and Loss statements, December 31, 19—

Chas. Smith		$12500.00
James Carson		12500.00
Real Estate	$15500.00	
Horse and Wagon	375.50	
Office Fixtures	62.15	
Notes Receivable	5172.75	
Accounts Receivable	7318.45	
Cash	1856.20	
Notes Payable		4378.45
Accounts Payable		3124.80
Purchases	11975.50	
Freight In	386.25	
Sales		10657.45
Expense	315.85	
Merchandise Discount	42.75	
Interest	8.10	
Stable Expense	51.20	
Insurance	96.00	
	$43160.70	$43160.70

Accounts Receivable includes all the accounts of customers; Accounts Payable, all the accounts of creditors.

Inventories:

Merchandise	$ 4578.25
Expense	12.75
Real Estate	15345.00
Horse and Wagon	371.75
Office Fixtures	60.90
Insurance	88.00

b) Make a statement of Assets and Liabilities and a proof of the statements.

c) Open the following ledger accounts and close them:

1. Freight In
2. Purchases
3. Sales
4. Merchandise Trading
5. Real Estate
6. Horse and Wagon
7. Insurance
8. Office Fixtures
9. Expense
10. Merchandise Discount

REVIEW QUESTIONS

1. What is a bank draft?
2. How does a bank draft differ from a check?
3. For what purpose are bank drafts used?
4. In whose favor should a bank draft be drawn? Why?
5. How should a check to buy a bank draft be written?
6. What entries does the remitter of a bank draft make?
7. What is a personal draft?
8. Describe the parties to a personal draft.
9. For what purpose are three-party sight drafts drawn?
10. Give the entry for each of the parties to a three-party sight draft.
11. What is the purpose of a two-party sight draft?
12. Explain how a two-party sight draft is collected.
13. Explain the straight bill of lading drawn in triplicate.
14. What is the object of an order bill of lading? How does it differ from a straight bill of lading?
15. Explain the necessary steps in making shipments by freight C. O. D.
16. Are bills of lading negotiable?
17. Explain the entry and the posting of C. O. D. sales.
18. How are shipments made by express C. O. D.?
19. How is the money usually returned?
20. Why is it best in a large business to keep several trading accounts instead of one merchandise account?
21. For what should the Purchases account be debited and credited?
22. For what should Freight In be debited and credited?
23. How should Freight In be closed?
24. How should Purchases be closed?
25. For what should the Sales account be debited and credited?
26. How should Sales be closed?
27. How should Merchandise Trading be closed?
28. For what should Delivery Expense be debited and credited?
29. For what should Real Estate be debited and credited?
30. For what should Real Estate Expense and Income be debited and credited?
31. Why should personal accounts with proprietors be kept?
32. For what should the partners' personal accounts be debited and credited?
33. How should a cash sale less a discount be entered?
34. What is the object of the bill book?
35. How do you prove the Notes Receivable Book? The Notes Payable Book?
36. What is a statement of account? How does it differ from an invoice?
37. To whom are statements of account sent? How often?
38. Why is a Merchandise Discount column kept on each side of the cash book?
39. How is each Merchandise Discount column posted?
40. What is the object of keeping an Expense column on the cash book? How is it posted?

CHAPTER XXI

TIME DRAFTS

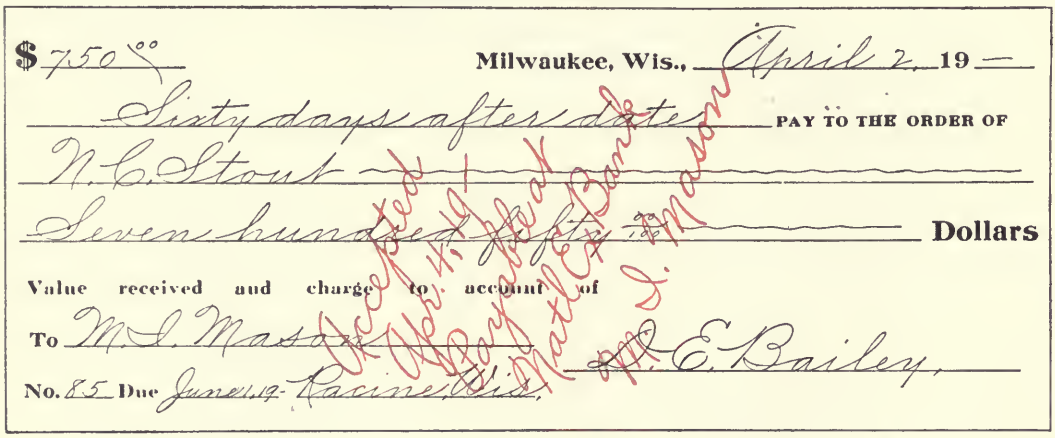
Personal Drafts may be made payable at some future date. They are then called *time drafts.* Time drafts may be payable:

1. A certain time after date, or
2. A certain time after sight.

Time drafts may be used for many of the same purposes as sight drafts. They may be three-party or two-party drafts. The time draft payable after date is the more common of the two but is used much less than sight drafts.

The theory of time drafts is the same as that of sight drafts. The drawer owes the payee. The drawee owes the drawer. The drawer asks the drawee to pay the money at some future time instead of at once.

THREE-PARTY TIME DRAFT



D. E. Bailey draws this draft and sends it to the payee, N. C. Stout. Mr. Stout sends it to the drawee, M. I. Mason, to get his written consent to the draft. M. I. Mason gives his consent by *accepting the draft.*

To Accept a Draft. The drawee accepts the draft by writing across the face of the draft, *Accepted,* with the date, and his signature. He may also make it payable at some bank if he desires. The draft is now called

an acceptance. The act of accepting the draft has the same effect as the giving of a promissory note.

The payee receives the acceptance the same as he would receive a promissory note.

The entries for a three-party time draft are all made in the journal. The drawer, D. E. Bailey, makes the following entry when he draws the draft:

DRAWER'S ENTRY

		2					
	N. C. Stout	Drew a 60-da.		750	—		
	To M. I. Mason	draft on M. I. M.				750	—
		and remitted it					
		to N. C. S. on acct.					

The drawer then sends the draft to the payee, N. C. Stout. He makes no entry when he receives the draft, but sends it to the drawee, M. I. Mason for acceptance. The drawee accepts the draft and sends it to the payee, N. C. Stout.

DRAWEE'S ENTRY

		4					
	D. E. Bailey	Accepted his		750	—		
	To Notes Pay.	60-da. draft				750	—
		on acct.					

The payee makes the following entry when he receives the accepted draft:

PAYEE'S ENTRY

		5					
	Notes Receivable	Recd. M. I. Mason's		750	—		
	To D. E. Bailey	acceptance of				750	—
		D. E. B's 60-da.					
		draft.					

Three-party time drafts are also drawn, payable at a certain time after sight. If the time is sixty days, the draft may read, *At sixty days' sight* or *Sixty days after sight.* These expressions mean that the draft is payable sixty days after it has been accepted by the drawee. The date of maturity is, then, sixty days after the date of acceptance on the draft and not sixty days after the date on which the draft is drawn.

Recording Drafts in the Bill Books. All time drafts must be recorded in the bill book. The details for this draft in the Notes Receivable Book of N. C. Stout are as follows:

Notes

LEFT PAGE

NO.	WHEN RECEIVED		MAKER OR DRAWEE	INDORSER OR DRAWER	IN WHOSE FAVOR	FOR WHAT RECEIVED	WHERE PAYABLE	DATE		TIME
1	19— Apr.	5	M. I. Mason	D. E. Bailey	N. C. Stout	On acct.	Natl. Ex. Bk.	Apr.	2	60 da.

Receivable

RIGHT PAGE

WHEN DUE													AMOUNT		INT. RATE	WHEN AND HOW DISPOSED OF					
	1	2	3	4	5	6	7	8	9	10	11	12				LEFT FOR COLLECTION		DATE PAID		REMARKS
19—						1							750	—	—	May	28	June	1	At bank

The record of *When and how disposed of* is not entered until the note is paid or otherwise disposed of.

The details in the Notes Payable Book for the record of the drawee, M. I. Mason, are as follows:

Notes

LEFT PAGE

NO.	WHEN GIVEN		MAKER OR DRAWEE	INDORSER OR DRAWER	IN WHOSE FAVOR	FOR WHAT GIVEN	WHERE PAYABLE	DATE		TIME
9	19— Apr.	4	M. I. Mason	D. E. Bailey	N. C. Stout	On acct.	Natl. Ex. Bk.	Apr.	2	60 da.

Payable

RIGHT PAGE

WHEN DUE													AMOUNT		INT. RATE	WHEN AND HOW DISPOSED OF		
	1	2	3	4	5	6	7	8	9	10	11	12				DATE PAID		REMARKS
19—						1							750	—	—	June	1	Chgd. at bank

The record of *When and how disposed of* is not made until the note is paid.

Rules for Three-Party Time Drafts:

THE DRAWER'S ENTRY when he draws the draft is
Payee to Drawee

THE PAYEE'S ENTRY when he receives the accepted draft is
Notes Receivable to Drawer

THE DRAWEE'S ENTRY when he accepts a draft is
Drawer to Notes Payable

When a time draft is paid, the payee makes an entry in his cash book crediting Notes Receivable the same as if he had received cash for another's note.

N. C. STOUT'S CASH RECEIPTS

June 1	Notes Receivable	M. I. M's acceptance		750	—

The drawee of the draft makes the same entry that he would if he had paid his note.

M. I. MASON'S CASH PAYMENTS

June 1	Notes Payable	Favor N. C. Stout #9		750	—

Payable at a Bank. To make a note or acceptance payable at the bank is equivalent to a written order on the bank to pay the amount of the draft and take it out of the acceptor's account. No check is necessary, as making the note or the acceptance *Payable at National Exchange Bank* may take the place of a check.

A few days before the draft is due, the payee sends it to the drawee's bank, either through his bank or direct. At maturity most banks charge the draft at once to the drawee's account and send him the canceled draft and a Charge or Debit Slip. The Charge Slip is made out in duplicate, the original being turned over to the bookkeeper of depositors' accounts and the duplicate sent to the depositor. (See illustration of Charge Slip on page 182)

Many banks prefer to notify their depositors by telephone or by mail before paying an acceptance or note payable at the bank. The depositor may instruct the bank to charge it to his account, or he may agree to send a check in payment.

In your practice work both methods of paying will be illustrated.

CHARGE SLIP

THE NATIONAL EXCHANGE BANK
OF MILWAUKEE

Milwaukee, Wis., August 10, 19—

DEBIT E. B. Morris & Co. $225.00
City.

For 30-day note **Due** August 10, 19—

Favor C. E. Magee.

A. G. Schultz, Cashier.

As soon as the drawee is notified that the draft has been charged, he must make an entry in his cash book for the note or acceptance. He must also make the records in the bill book and on the right and left check stubs. The amount must be subtracted from the bank balance. The form of the record on the left check stub is here illustrated.

LEFT CHECK STUB

June 1 | Acceptance favor M. C. Stout # 9 charged | 750—

Two-party Time Drafts. Time drafts may be used for the purpose of collecting accounts and of collecting all or a part of an invoice sold on special terms, such as, *30-day draft, draft at 10 days' sight,* etc. These drafts may be drawn a certain number of days after date or at a certain number of days' sight. They may be made payable to the drawer by writing in the words *Myself* or *Ourselves* or they may be made payable to a bank for collection.

The draft is sent to the drawee for acceptance. When he accepts the draft, he makes the same entry in the journal as for a three-party draft. He debits the drawer and credits Notes Payable.

When the drawer-payee receives this acceptance, he makes an entry in the journal debiting Notes Receivable and crediting the drawee.

Two-party drafts after date may be held by the drawer until they are due and then given to a bank for collection, if goods were sold on those terms.

Time drafts cannot be transferred to others nor discounted without first having them accepted. Any acceptance may be discounted in the same way as a note since an acceptance is just as much a promise to pay as a note.

Rules for Two-Party Time Drafts.

THE DRAWER-PAYEE'S ENTRY when he receives the accepted draft is
Notes Receivable to Drawee

THE DRAWEE'S ENTRY when he accepts the draft is
Drawer to Notes Payable

Exercise 41. Time Drafts.

1. March 3. Student draws a draft on C. L. Lee, Dubuque, Ia., in favor of G. E. Capper, St. Louis, payable 30 days after date, for $280. It is accepted, March 5, payable at Second National Bank.

Draw the draft, show the acceptance, and make the entry for each party.

2. March 5. C. L. Voss, Chicago, sells an invoice of goods to D. E. Layton, for $375.75 on the terms, draft at 10 days' sight. The draft is accepted March 7.

Draw the draft, show the acceptance, and make the entry for each party.

3. March 8. Student draws a draft at 30 days' sight on G. A. Lake to collect a past due account amounting to $245.10. The draft is accepted March 10, payable at Union National Bank.

Draw the draft, show the acceptance, and make the entry for each party.

4. March 13. Student discounts the acceptance in transaction 3 at the Marine National Bank. The bank charges 6% discount.

Show the indorsement and make the Student's entries.

5. March 14. J. E. Brock, New York City, draws a draft, payable 30 days after date, for $250, in favor of M. N. Gerber, Albany, N. Y., on C. L. Andrews & Co., Trenton, N. J. The draft is accepted March 16.

Make the entry for each party.

6. March 18. M. N. Gerber transfers the draft in transaction 5 to G. I. Turner, less discount at 6% for the unexpired time.

Show the indorsement and make the entry for each party.

7. March 20. B. E. Yoder draws a draft on Student, payable 10 days after date, for $1167.25, which is accepted March 22, payable at First National Bank.

Make the entry for each party.

8. March 30. The First National Bank charges the acceptance in transaction 7, to the Student's account.

Make the Student's entry.

9. March 31. B. E. Yoder's bank reports the collection of this draft, collection charge $\frac{1}{10}\%$.

Make B. E. Yoder's entry.

CHAPTER XXII

JOBBING FURNITURE

SET VI

TRANSACTIONS FOR SEPTEMBER 1-15

September 1. The proprietors have decided to increase their capital by each investing $3000 additional. D. E. Martin invests the following:

C. D. Forester's note, dated August 10, payable 60 days after date, with interest at 6%, for $1500.

Cash for the balance.

Compute the interest for the expired time. Make a journal entry for the entire investment and enter the cash in the cash book as you did August 1.

Have you taken your cash balance for August over to the top of a new page, dating it Sept. 1?

H. L. Kline invests the following:

A note of E. B. Brewster & Co., dated August 16, payable 3 months after date, for $1750.

Cash for the balance.

Compute the discount on the note for the unexpired time at 6%.

Make the entries the same as for D. E. Martin's investment.

Do not forget the necessary records for the notes.

This invoice is received from Klingman Furniture Co. In accordance with our instructions they have prepaid the freight and charged it to us.

Enter the amount of the goods purchased, without the freight, in the purchase book. Make a journal entry for the freight, debiting Freight In and crediting Klingman Furniture Co.

The bank has charged your acceptance due today, favor the E. J. Ranney Co., to your account.

No check is necessary.

The bank has the right to do this since in your acceptance you made it payable at the bank. You must make the proper records on the right and left check stubs as well as in the bill book.

What should you receive from the bank? What account should be debited for the amount charged by the bank?

Deposit the checks received today.

September 2. Chas. Osgood, City, orders:

12 Oak Dining Tables
5 Oak Library Tables
6 Mahogany Parlor Tables

Terms: note, 30 days after date.

The note will be received later.

J. C. Jenkins, Dayton, Ohio, orders:

15 Felt Mattresses
6 Mahogany Dressers
5 Mahogany Parlor Tables

Terms: 3/5, 2/10, net 30 days.

Receive of D. C. Lanning this check on account.

Pay Simmons, Gardner & Co. the balance due them on their August account.

September 3. Receive this check in payment of the rent of the rooms in the store building.

What account should be credited for income on Real Estate?

D. E. Beale, St. Paul, Minn., orders:

5 Mahogany Parlor Tables

He is desirous of receiving the goods as soon as possible, and instructs you to ship the goods by express C. O. D.

Make out the invoice and receipt it. Take an express envelope and fill it out as follows:

On the reverse side, fill in after *Goods Shipped to,* the name and address of the buyer. Fill in the *Amount of Bill.* After *Shipper's Instructions,* write *Collect all charges.*

On the face of the envelope fill in the name and address of your firm.

Do not open an account with D. E. Beale but enter it the same as the freight C. O. D. sale which you have had.

Receive this check from J. C. Reed for the invoice of August 24, less discount.

September 4. B. L. Duncer, City, orders:

5 Brass Bedsteads
12 Hair Mattresses
5 Oak Chamber Sets

Terms: account, 30 days.

K. L. Mears, Syracuse, N. Y., orders:

8 B. E. Maple Dressers
12 Felt Mattresses
6 Mahogany Parlor Suites

Terms: note at 30 days for $375; balance on account.

He sends the note with the order.

This invoice is received from F. Bishop & Co. A 30-day draft ac-

companies it. Accept the draft if it agrees with the invoice.

What is the meaning of accepting a draft? What account should be credited? Why?

Do not forget to record this acceptance in the bill book.

Receive this note from Chas. Osgood in payment of the invoice of September 2.

Does the face of the note agree with the amount of your sale to him?

Record it in the bill book.

September 5. Receive this check from F. I. Barber, on account.

J. C. Jenkins returns 5 Felt Mattresses, as he finds that he has too many for his trade.

Give him a credit memorandum. Your entry must be the reverse of the entry that you made when you sold him the goods.

D. C. Scott, Louisville, Ky., orders:

7 Oak Davenports
5 Morris Chairs
3 C. Walnut Chamber Sets

Terms: account, 30 days.

C. E. Randall, Albany, N. Y., orders:

9 Mahogany Dressers

Terms: draft favor National Exchange Bank, with B/L attached.

As Mr. Randall's credit is not known, he instructs you to bill the goods in this way.

What kind of a bill of lading must be used? Why? What is done with the draft and bill of lading? Do not open an account with C. E. Randall. What account should be debited?

September 7. Receive this express check in payment of the goods shipped to D. E. Beale on the 3d.

Credit the same account that you debited when you made the sale to him.

This invoice is received from Chas. Strang & Co. The goods are billed f. o. b. Milwaukee. This means that the seller should pay the freight. By some mistake, they failed to pay the freight. They instruct us to pay the freight bill and charge it to their account.

Enter the invoice in the usual way. You will receive the freight bill later.

Receive this check from G. L. Bennett, on account.

Receive this check from J. C. Jenkins for his invoice of the 2d, less discount.

Turn to your journal, you will find a credit there to J. C. Jenkins' account. Deduct it before computing the discount.

Pay this bill for painting a sign to be placed on the building. Charge it to Expense.

Pay F. Bishop & Co. the balance of their August account.

Deposit all the checks on hand; $\frac{1}{10}\%$ collection on out-of-town checks, except express checks.

September 8. J. G. Hull, City, orders:
8 Kitchen Cabinets
5 Mahogany Music Cabinets
5 Oak Davenports
Terms: account, 30 days.

B. L. Duncer, City, orders:
15 Oak Dining Tables
Terms: cash, less 2%.
This check is received in payment.

This bill of Voss & Co. is for repairs to the building. Pay it by check.

Is this a real or a nominal element? Does it increase the cost of the building or simply help to keep it worth its cost?

Mr. Kline has returned to Chas. Strang & Co., 5 Oak Dining Tables as they do not seem to be suitable to our trade. They send us this credit memorandum.

Prove cash and submit your cash book and check book to your teacher for approval.

September 9. This bill is for repairs to the delivery truck. Pay it.

Is this a nominal or a real element? Is it an asset or is it a charge against income?

Receive this check from H. E. King, on account.

D. G. Paxton, City, orders:
10 Felt Mattresses
6 Kitchen Cabinets
18 Oak Dining Chairs
Terms: 2/10, net 30 days.

C. G. Yates, Denver, Colo., orders:
8 Mahogany Dressers
12 Mahogany Parlor Tables
6 Oak Library Tables
Terms: on account.

Mr. Kline has arranged with C. G. Prang, Receiver in bankruptcy, to purchase some of the bankrupt stock at 90¢ on the dollar. The deduction is made on the invoice. This is not a discount but simply a method of lowering the price. Pay it by check. Enter the net amount in the purchase book and in the cash book. Check both entries. It is not necessary to open an account with the receiver of the bankrupt stock as the transaction is closed and you will have no more dealings with him.

September 10. C. P. Baker & Co., City, order:
15 Felt Mattresses
5 Kitchen Cabinets
Terms: 3/5, 2/10, net 30 days.

A. Dorris, City, orders:

5 Mahogany Parlor Tables
10 Mahogany Rockers
6 Oak Dining Tables

Terms: account, 30 days.

K. L. Mears, Syracuse, N. Y., orders:

4 C. Walnut Bedsteads
3 C. Walnut Chamber Sets

Terms: 1/10, net 30 days.

He instructs you to ship the goods to D. G. Foss, Utica, N. Y. He also asks you to prepay the freight and charge it to his account.

Make out the invoice to K. L. Mears, but on it write, *Shipped to D. C. Foss, Utica, N. Y.* The bill of lading should be made out to D. G. Foss.

Pay this freight bill and charge it to K. L. Mears' account, as it is simply an accommodation to him.

The bank reports the sight draft on C. E. Randall collected. Collection charge, 50¢.

September 11. M. E. Newton, Wheeling, W. Va., orders:

12 Oak Dining Chairs
8 Oak Library Tables

Terms: draft favor National Exchange Bank, with B/L attached.

Mr. Newton has not yet given us sufficient information in reference to his credit standing to enable us to sell him on account. He instructs us to send these goods by freight C. O. D.

Study a similar transaction that you have had.
What kind of a bill of lading is required for all C.O.D. sales by freight?
What should be done with the invoice? With the draft with B/L attached?

J. A. Reiss & Co., City, order:

15 Brass Bedsteads
6 B. E. Maple Dressers
15 Hair Mattresses

Terms: on account.

This invoice is received from the E. J. Ranney Co. The goods have been shipped direct to C. L. Larson, City, on his order to us. We instructed the E. J. Ranney Co. to pay the freight on this shipment and to charge it to our account.

Enter the amount of the merchandise bought in the purchase book in the usual way. Enter the amount of the freight in the journal.

What account should be debited just the same as if we had paid the freight on the arrival of the goods? To whom do we owe the amount of the freight? Credit their account.

Make out an invoice for the goods bought of the E. J. Ranney Co., and send it to C. L. Larson, City. Terms: account 30 days.

Pay this freight bill on goods bought of Chas. Strang & Co., and charge it to their account.

September 12. This bill for advertising is a cash bill and should be paid at once. The discount is already deducted. Do not enter the discount in the cash book.

G. L. Bennett, Lansing, Mich., orders:

3 Kitchen Cabinets
12 Mahogany Chiffoniers
6 Oak Chamber Sets

Terms: note at 30 days with interest at 6%, for $425; balance on account.

This note accompanies the order.

D. G. Paxton, City, reports 1 Kitchen Cabinet in an unsalable condition. As this cabinet was reported in good condition when it left the hands of our delivery-man, we have refused to allow him full credit for it. We have compromised and allowed him half the value. Make out a credit memorandum for one-half the selling price of 1 Kitchen Cabinet.

Pay Chas. Strang & Co. the balance due them on the invoice of the 7th.

This invoice is received from the Atlas Parlor Furniture Co. The goods were shipped by our order, direct to J. G. Hull, City.

Make the entries as in a previous transaction of the same kind.

Make out an invoice to J. G. Hull, City, for these goods. Bill them on account.

September 15. This check is received from D. L. Ellery for his note due today. Cancel the note and return to the maker.

This bill is for printing circulars to be sent to the trade. Pay by check.

Receive this check from C. P. Baker & Co., for the invoice of the 10th, less discount.

Third Report. Prove cash, make a report, and hand in your Outgoing Papers.

Post from all the books. Do not close any of the books of entry nor post any totals.

Open the two new customers' accounts on page 12, the new creditor's account on page 18, and the other new account on page 24.

CHAPTER XXIII

SHIPMENTS AND CONSIGNMENTS

In certain lines of business goods are frequently shipped by one firm to another to be sold on commission. The person that makes a business of selling on commission is usually called a *commission merchant* or *factor.* Produce, grain, fruit, poultry, and meats are frequently shipped in this way; pianos, automobiles and sewing machines are quite often shipped in this way, while many other articles are occasionally shipped to be sold on commission.

The person who makes the shipment is called the *consignor* or *principal.* the person to whom the goods are consigned, the *consignee* or *agent.*

The legal effect of a shipment is to retain the title and control of the goods while in the hands of the consignee or agent. The agent must use reasonable skill and diligence in handling the goods, and must account to the principal for the goods at certain times.

There are several reasons for making shipments of goods to be sold on commission instead of selling the goods.

1. The consignor may not be willing to trust the consignee on account. He may be willing to trust the consignee to properly handle the goods and account for the proceeds.

2. The consignee may not be willing to buy the goods because they are a new brand or because a demand must be created for them. He may be willing to assume the responsibility of properly handling them and selling them on commission.

3. In the case of fruits, grains, produce, poultry, etc., the shipper may not know the market price in the consignee's city. For that reason, he cannot invoice them on account, but makes an *invoice of shipment* to be sold on commission.

Invoice of Shipment. When the consignor makes a shipment to be sold for his account and risk, he makes out an *invoice of shipment* instead of the ordinary invoice. On this invoice of shipment the goods are usually listed at their cost price or with no prices given. Sometimes, however, the consignor wishes to keep the cost price from the consignee. In that case he may list them at the selling price or at a fictitious price. The first plan, that of listing them at the cost price, is the one most commonly used.

INVOICE OF SHIPMENT

CHICAGO, ILL., August 3, 19—

Invoice of merchandise shipped to
HESS FURNITURE CO.,
PEORIA, ILL.

To be sold for the account and risk of BRADFORD PIANO CO.,
Consignors.

10	Bradford Pianos No. 725	$265	2650	–		
5	Chase Pianos No. 405	$310	1550	–		
1	Bradford B. Grand Piano No. 935		485	–	4685	–

Shipment Account. This account, with the name of the consignee added, is opened up to record the consignor's dealings with the consignee. It is not a sale, so the entry should not be made in the sales book. Part of the goods have been taken from purchases and shipped to be sold on commission. The Purchases account must be credited for the shipment when it is made at cost. The journal entry should be made as follows:

Shipt. Hess Furniture Co.	Shipped to be sold on		$4685	
To Purchases	10% commission			$4685
	Report to be made monthly			
	10 Bradford Pianos No. 725	$265.–$2650		
	5 Chase Pianos No. 405	$310.–$1550		
	1 Bradford Baby Grand Piano No. 935	$485		

The Shipment account should be opened up in the last section of the ledger and not in the section with the personal accounts.

The Shipment account should be *debited* for everything paid out by the consignor for the shipment, such as, freight, drayage, insurance, etc. It is also debited for any cash advanced to the consignee on account of the shipment.

The Shipment account should be *credited* for all returns from the shipment, such as, cash, goods returned, drafts honored, and when, instead of receiving cash, the consignee's account is debited for the net returns of the shipment.

Account Sales. When the consignee has sold the goods, or at certain regular intervals, if agreed upon, he renders a statement of his dealings for the consignor. This is called an account sales. It is a formal statement in detail of the sales made, the charges for freight, drayage, commission,

insurance, storage, etc., and the net returns from the shipment, called the *net proceeds*.

ACCOUNT SALES

MILWAUKEE, WIS., November 10, 19—

Sold by E. B. HARRISON & CO.

For the account and risk of

D. L. WHITE, GRAND RAPIDS, MICH., Consignor.

Nov.	1	50 bbl. Baldwin Apples	$3.05	152	50		
	4	20 bbl. Greening Apples	2.95	59			
	10	30 bbl. Greening Apples	2.90	87		298	50
		Charges					
		Freight $27.50 Drayage	$5.00	32	50		
		Advance		100	–		
		2% Commission		5	97	138	47
		Net Proceeds				160	03

The Commission is always computed on the net sales, that is, if any goods were returned, their value would be deducted from the total sales before finding the commission.

The Advance of $100 means that the consignor, D. L. White, either received cash from the consignee, E. B. Harrison & Co., or D. L. White drew a sight draft on E. B. Harrison & Co. on account of the shipment and collected it through a bank. The drawing of a sight draft on account of a shipment is a frequent occurrence. The drawer, D. L. White, debits Cash and credits the Shipment when the draft is paid.

The consignee usually remits the net proceeds by check. When it is received, the consignor enters it in his cash book, as a debit to Cash and a credit to the Shipment account. No entry is made for the sales or for the charges, but simply for the net proceeds. Sometimes the consignee does not remit the net proceeds but asks the consignor to charge the net proceeds to his personal account.

The entry on the consignor's books would be

Consignee
    To Shipt. Consignee

To Close Shipment Account. The Shipment account is a nominal account that represents a loss if the debit side is the larger and a profit if the credit side is the larger. If there are any goods in the hands of the consignee unsold at the time of closing, the amount of the inventory must be entered in the account before closing, and brought down on the opposite side after closing.

Shipment J. L. Betts #1

19–					19–				
May	1	J	8	1345 —	May	9	Sgt. dft. C	12	500 —
	1	Freight C	11	25 60		15	Net Proceeds C	14	946 25
	31	Profit & Loss	9	75 65					
				1446 25					1446 25

Entries for Consignee. The account which the consignee keeps on his books to represent his responsibility to the consignor is the Consignment account. The name of the firm from which the consignment was received and the number is always included in the name of the account, as, Consignment M. L. Jasper & Co. No. 1.

The Consignment account is not a creditor's account and should be opened up in the last section of the ledger and not in the creditors' section.

When the consignee receives the goods and the invoice of shipment, he makes no entry but simply a memorandum in the journal. This memorandum should state what was received, the commission to be allowed, and any special provisions in reference to making settlements.

The consignee *debits* the Consignment account for all charges paid when the goods are received or afterwards, for all goods returned and allowances made, and for all drafts accepted or paid for the account of the consignment.

He *credits* the Consignment account for all sales of consigned goods. If the sales are for cash, he enters them in the cash book as a credit to the Consignment account. If they are on account, he enters them in the journal as follows:

Customer
    To Consignment

They must not be entered in the sales book because they are not sales of goods belonging to the business.

When the goods have been sold, or sooner, by agreement, the consignee renders an account sales to the consignor. He then makes an entry in the journal debiting the Consignment for his commission and for any other charge, such as guaranty, which has not been entered, as follows:

Consignment
    To Commission

If the net proceeds are paid in cash, the Consignment is debited in the cash book, thus closing the Consignment account.

If the cash is not remitted, an entry is made in the journal debiting the Consignment and crediting the Consignor, as follows:

Const. J. B. Kris & Co. No. 1
To J. B. Kris & Co

In posting to the Consignment account, each entry should be explained in the ledger account so as to facilitate the rendering of account sales.

Consignment M. L. Jasper & Co. #1

19–						19–					
May	4	Drayage	C	11	7 25	May	7	Sales	J	8	450 —
	8	Sgt. dft.	C	13	500 —		9	Sales	J	8	325 —
	13	Com.	J	9	76 50		13	Sales	J	9	755 —
	13	Net Proceeds	C	15	946 25						
					1530 —						1530 —

Large businesses making a great many shipments of goods to be sold on commission use a separate Shipment Ledger in which the details of shipments are kept.

In the same way, the agent or consignee, if the consignments are large in number, keeps a separate Consignment Ledger in which to enter the details of consignments.

Exercise 42. J. C. Graf makes a shipment of produce to D. L. Harter & Co., to be sold on commission.

a) Make the entries that J. C. Graf would make.
b) Make the entries that D. L. Harter & Co. would make.
c) Show the Shipment account closed.
d) Show the Consignment account closed.

March 8. J. C. Graf made a shipment to D. L. Harter & Co., to be sold on commission, as follows:
150 bbl. Baldwin Apples at $4.10
100 bbl. Greening Apples at $3.95
J. C. Graf agrees to pay a commission of 5 %.

March 12. D. L. Harter & Co. received the shipment of goods from J. C. Graf. Paid freight, $21.25 and drayage, $7.50.

March 15. D. L. Harter & Co. sold 50 bbl. Greenings at $4.75 to C. I. Mass for cash.

March 18. J. C. Graf drew a draft at sight for $200 on D. L. Harter & Co., on account of the shipment, which Harter & Co. paid.

March 25. D. L. Harter & Co. sold 75 bbl. Baldwins at $4.95 and 50 bbl. Greenings at $4.70 to J. I. Coats, on account, 10 days.

March 30. D. L. Harter & Co. sold 75 bbl. Baldwins at $4.90 to F. E. Ebert, for cash.

March 30. D. L. Harter & Co. rendered account sales. They deducted their commission of 5% and the other charges, and remitted the net proceeds to J. C. Graf.

CHAPTER XXIV

JOBBING FURNITURE

SET VI

TRANSACTIONS FOR SEPTEMBER 16-30

September 16. Your note favor Price Furniture Co. due today has been charged to your account by the bank. Take your pass book to the bank and have it charged. You will receive the receipted note.

What gives the bank the right to charge this note to your account? What effect does it have on your cash balance? On your bank balance?

Write a check in favor of *Cash* for $5. It is for postage stamps for mailing the circular letters to the trade. Charge it to Advertising. You have also used, from the office supplies, envelopes worth $1.50. Your time spent in filling in and in addressing the envelopes is worth $2.25. Make a journal entry to transfer $3.75 from Expense to Advertising. Explain the entry fully. The object of this is to make the Advertising account show the total expenditure for advertising in any form. The envelopes were charged to Expense when they were bought and your salary as bookkeeper and stenographer will be charged to Expense at the end of the month when it is paid.

Discount at the National Exchange Bank, E. B. Brewster & Co.'s note for $1750. The bank charges 6% discount.

Discounting a note is a matter of agreement with the bank. The bank must be satisfied with the responsibility of the maker of the note and will require your firm to indorse it as security for its payment.

Take the note from your file, calculate the discount, make out the deposit ticket, and take to the bank with your pass book.

Make two entries in the cash book and the necessary records in the bill book and in the check book.

The bank reports the collection of the draft with bill of lading attached, on M. S. Newton. Collection charge, 25¢.

September 17. Write a cash check for $2.50 for postage stamps.

The firm has had a number of Circassian Walnut Bedsteads that have not been selling well. Mr. Kline has offered them to the D. G. Luther Co. to be sold on a commission of 10%. They have asked us to ship all that we have, as they have a customer for them.

Make an invoice of shipment to the D. G. Luther Co., Dubuque, Iowa, at cost, for 11 C. Walnut Bedsteads. Bill them at $20.25.

Make the entry in the journal. Do not forget to enter the details of the shipment in the journal entry. Make out the bill of lading as usual.

September 18. C. M. Morris, Muskegon, Mich., orders:

5 Mahogany Rockers

He has instructed us to ship the goods by express C. O. D., as he wishes them at once. We have allowed him 2% discount.

Enter the sale without deducting the discount, but deduct it on the invoice. Fill out the envelope as you did before except that after *Shipper's Instructions* write *Do not collect charges.*

September 19. Receive this check from D. G. Paxton for invoice of the 9th, less discount. Examine his ledger account. Does he owe you the entire amount of the invoice? What does the credit represent? Compute the discount on the amount that he owes.

Receive this N. Y. Draft from K. L. Mears for the invoice of the 10th, less discount. Examine his ledger account carefully. This check should pay both charges to his account on September 10, after the discount is deducted on the invoice.

Pay the E. J. Ranney Co. for invoice of the 11th, less discount.

September 21. The business has received several calls from customers for a piano which they could sell for about $275. The F. G. Smith Piano Co. has offered to ship us pianos to be sold on a commission of 12½%. Mr. Martin made the agreement several days ago. He also agreed that the firm would honor their 15-day draft for $1500.

From this invoice of shipment, make a record in the journal of the goods received. Pay the freight bill by check and charge it to the consignment. The use of the truck and the services of the driver and assistant are worth $12. Make a journal entry charging this to the consignment and crediting Delivery Expense.

Accept this draft of the F. G. Smith Piano Co. for the account of the consignment.

September 22. C. G. Yates, Denver, Colo., orders:

14 Mahogany Dressers
12 Mahogany Rockers
8 Oak Davenports

Terms: account, 30 days.

Pay this bill of the Western Supply Co. for motor truck supplies.

Deposit all checks and N. Y. drafts on hand.

Prove cash, and submit your cash book and check book to your teacher for approval.

September 23. Receive this check from the express company for the C. O. D. shipment made by them on the 18th. The charges for collecting

the money, 50c, have been deducted in accordance with your instructions to the express company.

Make your entries so that they will show the amount paid by the customer and the amount allowed by you to the express company for collection.

B. L. Duncer, City, orders:
6 Smith Pianos
Terms: account, 30 days.

This is not a sale of merchandise but of consigned goods. Bill them at $235.

Where should the entry be made? Why?

September 24. Receive the account sales and returns from the D. G. Luther Co. of the shipment made to them on the 17th.

Check the correctness of the account sales and compare the check received with the net proceeds.

Make an entry for the net proceeds only. File the account sales in the Miscellaneous file.

J. A. Reiss & Co., City, send this check to apply on account, and order:

7 B. E. Maple Dressers
10 Mahogany Chiffoniers
6 Smith Pianos
Terms: account, 10 days.

The pianos are from the F. G. Smith & Co. consignment. Bill them at $235. Make out one invoice but make two entries for the sale.

What account should be credited for the pianos sold? Why?
Where should the entry be made?

September 25. L. E. Conroy, Muncie, Ind., orders:
4 Mahogany Chiffoniers
12 Mahogany Parlor Suites
Terms: draft favor National Exchange Bank, with B/L attached, less 2%.

Treat this the same as previous transactions of this kind. Do not deduct the discount.

Receive this check from D. C. Scott, on account.

Give Klingman Furniture Co. your note, payable 30 days after date, with interest at 6%, for $1000, to apply on account.

Render account sales to the F. G. Smith Piano Co. for the pianos sold on commission. Deduct the commission in addition to the items already charged.

Make a journal entry for the commission. Send a check for the net proceeds and make the entry for it.

When you have posted these entries together with those already made, the charges should all be on the debit side and the sales on the credit side.

Will the entries you have made balance the Consignment account? They should if you have made no mistakes.

September 26. By agreement with F. G. Smith Piano Co., you prepay your acceptance of September 21, for $1500, less discount at 6%.

Whether the acceptor of a draft or the maker of a note is allowed a discount for prepayment is a matter of agreement as the note is usually written. But the payee is usually willing to allow the acceptor or maker the per cent of interest that represents the *loan value* of money at that time.

You must make the entry as if you had paid your acceptance in full and had received back the discount from the payee.

September 28. The account of J. C. Jenkins is long past due, and there are rumors concerning his solvency. Mr. Martin has written several letters asking for payment but has received no satisfactory reply. Draw a sight draft on him for the amount he owes and leave it at the bank for collection.

Make no entry, but make a memorandum in the journal.

A. Dorris, City, orders:

5 Oak Chamber Sets
6 Oak Dining Tables
8 Oak Library Tables

Terms: account, 30 days.

Mr. Martin informs you that he has taken 1 Mahogany Parlor Suite from the stock for his personal use.

Make a journal entry for this as it is not really a sale, but a deduction of the amount of the purchases left on hand. Charge it to him at cost.

September 29. Discount at National Exchange Bank, C. D. Forester's note for $1500. The bank charges 6% discount.

To discount an interest-bearing note:

1. Find the interest on the note for the full time expressed in the note.
2. Find the amount of the note by adding the interest to the face value.
3. Discount the amount for the unexpired time.

Make three entries for this transaction.

September 30. Pay this freight bill.

Give each proprietor a check for $75 for personal use.

Pay salaries by check.

Make a journal entry to transfer part of the Delivery Expense to Purchases because of the use of the delivery equipment for hauling incoming goods to the store room. The amount to be transferred is $18.25.

Deposit all checks on hand; $\frac{1}{10}$% collection on all out-of-town checks except express checks.

Fourth Report. Prove cash, make a report, and hand in your Outgoing Papers.

CLOSING WORK

Open the Consignment account on page 18 and the two new nominal accounts on page 26.

1. Close the sales book and post it. Do not forget to rule each page and forward it in ink to the top of the next page.
2. Close the purchase book and post it.
3. Close the cash book and post it.
4. Post the journal.
5. Render statements of accounts to all customers that owe you except C. O. D. customers. Follow the model statement of account in Chapter XX.
6. Prove the bill book.
7. Inventories, September 30, 19—

   Merchandise:

   20 Brass Bedsteads
   29 Felt Mattresses
   46 Hair Mattresses
   20 Mahogany Dressing Tables
   20 Mahogany Lady's Desks
   13 Mahogany Parlor Suites
   1 Mahogany Parlor Table
   15 Oak Chamber Sets
   24 Oak Desk Chairs
   6 Oak Dining Chairs
   1 Oak Dining Tables
   4 Oak Sideboards
   13 Morris Chairs
   13 Turkish Rockers
   4 C. Walnut Chamber Sets

   Freight on goods unsold, $97.15
   Expense, 7 tons coal at $5.15
   Delivery Equipment:
   Inventory value, September 1, less depreciation of 2% on the original cost
   Furniture and Fixtures:
   Inventory value, September 1, less depreciation of 2% on the total original cost
   Real Estate, Cost, less depreciation of $\frac{1}{2}$%
   Insurance, Unexpired insurance for 10 months
8. Take a trial balance. You will have to forward it.
9. Make Trading and Profit and Loss statements. You will have some new accounts in this statement.
10. Make a statement of Assets and Liabilities, and a proof.

11. Close the ledger as follows:
    a) All accounts that are included in the Trading and Profit and Loss statements
    b) Profit and Loss
    c) The proprietors' personal accounts
    d) The proprietors' capital accounts
12. Take a proof trial balance.
13. Write up the bank statement.
14. Submit all of your books to your teacher for approval.

REVIEW QUESTIONS

1. What are the purposes of time drafts?
2. What is meant by *accepting* a draft? How is it done?
3. Give the rules for three-party time drafts.
4. What is the effect of making a draft payable at a bank?
5. What is meant by charging a draft at the bank? How is it done?
6. Give the rules for two-party time drafts.
7. Explain the method of shipping goods by freight C. O. D. and of collecting the money.
8. Explain the method of shipping goods by express C. O. D. and of collecting the money.
9. What is a credit memorandum? How is it used?
10. Why are goods shipped to be sold on commission?
11. What is meant by an "advance" on a shipment?
12. Describe an account sales.
13. Give the rules for debiting and crediting the Shipment account.
14. Give the rules for debiting and crediting the Consignment account.
15. What does the Shipment account show in the statements and how is it closed?
16. How do you discount an interest-bearing note?
17. Name the accounts that you have used that have nothing but a nominal element in them.
18. Name the accounts that are chiefly nominal in character but that have a real element in them.
19. Name the accounts that are chiefly real in character but that have a nominal element in them.
20. Name the accounts that have a real element only.
21. Name the assets that are fixed or permanent in character.
22. Name the assets that are temporary, or that can be turned into cash without closing up the business.
23. Analyze the following accounts: (a) Real Estate; (b) Insurance; (c) Interest, with the debit side the larger; (d) Freight In; (e) Delivery Expense; (f) Commission.

Exercise 43. Make the entries for each of the parties to the following transactions.

September 8. L. C. Gorley drew a sight draft on D. E. Herz, in favor of B. I. Havens, for $850, to apply on account. The draft was paid when presented.

10. E. James & Co. drew a draft at 30 days' sight, on C. A. Webster, for an invoice of goods sold today, amounting to $289.25. The draft was accepted September 13.

12. J. E. Weaver bought an invoice of goods of Friend & Co., amounting to $437.45. He sent a Chicago draft in payment. Exchange, 50¢.

14. C. N. Norris drew a 30-day draft on Evarts & Co., in his favor, for $625, to apply on account. The draft was accepted September 16.

18. C. N. Norris discounted the acceptance of Evarts & Co., in the previous transaction, at the bank at 6%.

20. D. E. Hilton drew a sight draft on M. E. Morris, in favor of G. R. Rhodes, for $250. When it was presented to the drawee, he refused payment.

22. D. E. Long's account, amounting to $315.75 is long past due. You offered him a discount of 3% for payment at once, and drew a sight draft on him in your favor, for the net amount. Your bank reports the draft paid today. Collection charge, 30¢.

23. L. D. Kohn sold an invoice of goods to L. Vogel, amounting to $242.25, on the terms: draft with bill of lading attached. The draft with bill of lading attached was left at the bank for collection.

29. The bank reports this draft collected. Collection charge, $\frac{1}{8}$%.

Make all the entries necessary for L. D. Kohn for both dates.

29. M. E. Doyle drew a sight draft on Stover & Co., for $750, on account of a shipment of goods sent to them to be sold on commission. The bank reports the draft paid. Collection charge, $\frac{1}{10}$%.

29. W. A. Warner accepted Page & Co.'s draft at 15 days' sight, for invoice of the 23d, less 2% discount. Amount of invoice, $536.40.

Exercise 44. a) Make the entries for the following transactions, in journal form.

May 2. Paid freight on goods bought, $37.25.
5. Paid for packing material, $28.95.
8. Gave J. Cole a credit memorandum for goods returned, $18.45.
10. Paid merchandise broker's commission on goods purchased, $47.50.
12. Received a credit memorandum from Turner & Co. for overcharge, $16.80.
14. The proprietor took goods from stock for his private use, $7.50.
18. Shipped goods at cost, to C. L. Roberts, to be sold on commission, $728.45.
20. Gave T. M. Masters a credit memorandum for damaged goods, $19.50.
22. Paid freight on goods bought, $56.45.
24. Took goods from stock for repairs to a building owned by the business, $3.15.
26. Received a credit memorandum from D. Vinton & Co. for goods returned, $15.45.
28. Received a cash rebate of $12.30 for an overcharge on freight paid.
30. Paid salary of receiving clerk, $45.
31. The purchases for the month amounted to $6725.80.
31. The sales for the month amounted to $5025.75.

b) Open the trading accounts, enter the inventory, May 1, $2123.40, and post.

c) Make a trading statement. Inventory, May 31, $1985.65.

d) Close the trading accounts.

Exercise 45. Make entries for the following transactions in journal form, and show the property and nominal accounts closed.

October 1. Bought the building and lot at 210 Second St. of Caspar & Co. for $12,500. Paid them cash, $5000 and gave a note, payable one year after date, with interest at 6%, for the balance.
5. Paid for alterations to make the building suitable for the owner's business, $97.85.
6. Leased two rooms in the building to G. D. Easton for a monthly rental of $45. Received payment of the October rent.
8. Paid for repairs to the building, $13.75.
10. Paid for a covered loading platform attached to the rear of the building, $240.
12. Paid the taxes on the building and lot, $72.85.

18. Paid the city assessment on the building and lot, $27.35.

22. Tore up a board sidewalk around the building valued at $65, and put in a cement walk costing $212. Paid cash for the new walk.

26. Sold the building and lot to D. E. Jansen for $13500. He paid cash $7500, and gave his note for the balance, payable 30 days after date, with interest at 6%.

Before making this entry, post the previous entries.

28. Paid our note with interest, favor Caspar & Co., for $7500, less discount at 6%.

Exercise 46. a) Make the entries in journal form, for the following transactions.

June 1. Paid for a delivery wagon, $85.
3. Paid for two horses, at $135 each, $270.
4. Paid stable rent for June, $8.
5. Paid for hay and straw, $27.50.
7. Paid for a set of double harness, $25.
9. Paid for horse shoeing, $2.50.
12. Paid for corn and oats, $9.80.
15. Received from C. D. Brake, $6.50 for doing hauling for him.
18. Sold one horse for cash, $120.

Make the entry so that the asset account will show the correct value of the assets remaining.

20. Paid for another horse, $150.
24. Paid for a top for the delivery wagon, $20.
26. Paid for repairs to the wagon, $3.75.

b) Close Delivery Equipment and Delivery Expense.

Inventories:

Horses, wagons, and harness at cost, less 1% depreciation

Feed on hand valued at $14.25

Exercise 47. a) Make the entries for the consignor and for the consignee.

January 8. E. B. Hamilton & Co., Toledo, Ohio, shipped to C. L. Patton, at cost, to be sold on commission, the following:
15 tubs Butter, 60 lb. each, at 24¢ per lb.
35 cases Eggs, 36 doz. each, at 19¢ per doz.

12. C. L. Patton received these goods from E. B. Hamilton & Co., and paid freight $9.25 and drayage, $2.75.

15. Sold for cash to D. Bender:
8 tubs Butter at 30¢ per lb.
15 cases Eggs at 25¢ per doz.

17. Sold C. Elliot & Co., on account:
7 tubs Butter at 30½¢ per lb.
12 cases Eggs at 26¢ per doz.

18. E. B. Hamilton & Co. drew at sight on C. L. Patton for $200, on account of the shipment, which C. L. Patton paid today.

20. C. Elliot & Co. returned 1 tub Butter to C. L. Patton as unsatisfactory. Gave them a credit memorandum.

22. Sold J. Colby on account:
8 cases Eggs at 25½¢ per doz.

23. Sold the 1 tub of Butter returned at 15¢ per lb. to D. Kemp, for cash.

b) Open ledger accounts for the shipment and for the consignment, and post the entries to these accounts.

c) January 24. Render account sales for C. L. Patton. The additional charges are: storage, $12.50; commission, 5%. Remit the net proceeds in cash.

d) Make the additional entries, and show the Shipment and Consignment accounts closed.

Exercise 48. Enter the following in an Insurance account, find the inventory, and close the account, September 30.

July 1. Insured a stock of goods for $5000 for one year. Paid the premium at the rate of 80¢ per $100.

August 1. Took out additional insurance, amounting to $1500. Paid the premium for one year at 1¼%.

August 15. Took out additional insurance, amounting to $2500. Paid the premium for one year at $1.15 per $100.

In finding the unexpired insurance value, count the time in months. For a fractional part of a month consider 30 days to the month.

Exercise 49. J. C. Sullivan began business March 1, with the following investment of assets and liabilities. Make the opening entry.

Cash, $2500

Stock of goods, $2600

Chas. Orton's 60-day note, dated February 3, for $650

James Aldrich's 30-day note, dated February 8, with interest at 6%, for $425

Real estate, valued at $6000

Rent, due from subrentals, $45

Furniture and fixtures, valued at $460

J. C. Steele owes him on account, $986.40.

He owes D. J. Perry on account, $1250.

He owes E. J. Black a note for $2000, dated January 10, payable six months after date, with interest at 6%, as part payment on the real estate bought.

Exercise 50. From the following trial balance and inventories, prepare Trading and Profit and Loss statements and a Statement of Assets and Liabilities. The statements cover a period of six months, ending December 31, 1910.

This problem is taken from the New York state examination in elementary bookkeeping.

Trial Balance, December 31, 1910.

J. A. Finch, Partner	100	9000
L. A. Lewis, Partner	200	9000
Furniture and Fixtures	350	
Real Estate	14000	
Horse and Wagon	500	
Office Supplies	90	
Mdse. Discount	110	
Shipment, Davis & Co.	1800	950
Purchases	11375	215
Sales	310	7520
Freight In	75	
Gray & Co.	1125	600
Notes Receivable	2000	1100
Expense	150	
Holmes & Co.	600	3100
Commission		250
Notes Payable	2000	6000
Cash	2950	
	37735	37735

Inventories:
Merchandise, $6625
Office Supplies, $40
Insurance, unexpired, $20
Shipment, unsold, $1115
Depreciation:
Real Estate, 2½%
Horse and Wagon, 12½%
Furniture and Fixtures, 5%

SUMMARY OF PRINCIPLES AND RULES

An Entry is a systematic record of a transaction.

The Journal is a book of entry in which transactions are entered as they occur with a debit for every credit or one or more debits that are equal to one or more credits.

The Ledger is a book in which the items from the original books of entry are classified under appropriate headings called accounts.

Posting is transferring the debits and credits from the books of entry under the proper headings in the ledger.

A Trial Balance is a list of the open accounts in a ledger with the debit and credit footings, or the balances set opposite the names of the accounts, and with the total debits and credits equal.

Real Accounts are accounts that represent actual values.

Nominal Accounts are accounts that name some profit or loss of the business.

Mixed Accounts are accounts that contain both real and nominal elements.

An Asset is property belonging to the business or an amount owed to the business.

A Liability is an amount owed by the business, whether due or not.

A Note Receivable is another's note given to the business.

A Note Payable is a note given by the business.

A Statement of Profit and Loss shows in detail the profits and losses of the business and the net profit or loss of each proprietor.

A Statement of Assets and Liabilities exhibits in detail the assets and liabilities of the business and the net worth of each proprietor.

Rule of Double Entry. Equal debits and credits must result from each transaction.

General Rule of Debits and Credits. *Debit* what the business receives or the account that receives the benefit.

Credit what the business parts with or the account that yields the benefit.

Rule for Creditors' Accounts. *Credit* a creditor's account when the business becomes indebted to him. *Debit* a creditor's account when the

business pays the creditor on account, or is allowed something for returned or damaged goods.

Rule for Customers' Accounts. *Debit* a customer's account when he becomes indebted to the business. *Credit* a customer's account when he makes a payment on account or is given an allowance for returned or damaged goods.

Rule for Real Accounts. Real accounts with the debit side the larger are *Assets*; with the credit side the larger, are *Liabilities*.

Rule for Nominal Accounts. A nominal account shows a loss if the debit side is the larger and a profit if the credit side is the larger.

To Find the Profit or Loss on Merchandise. 1. Subtract the inventory from the debit side. Take the difference between the credit side and this result. If it is a debit difference, it is a *loss*. If a credit difference, it is a *profit*.

2. Add the inventory to the credit side. Take the difference between this result and the debit side. If it is a debit difference, it is a *loss*. If a credit difference, it is a *profit*.

To Find the Net Worth. 1. Add the net profit to the net credit or subtract the net loss from the net credit.

2. Subtract the liabilities from the assets.

Rule for Transferring Red Ink Entries. 1. Everything in red ink to close must be brought down in black ink on the opposite side of the ledger.

2. Inventories, balances, and net worth are transferred to the opposite side of the same account.

3. Profit and Loss items, including net profit or net loss, must be transferred to the opposite side of some other account.

Rule For Notes Receivable. *Debit* Notes Receivable at the face value for all notes of others received by the business. *Credit* Notes Receivable at the face value for all notes of others paid by them and for all notes of others parted with in any other way.

Rule For Notes Payable. *Debit* Notes Payable when our notes are paid by the business. *Credit* Notes Payable when our notes are issued.

Rule For Interest. *Debit* Interest when the business allows it to others. *Credit* Interest when others allow it to the business.

Rule For Discount on Notes. *Debit* Interest for all discount allowed by the business on our notes or on others' notes. *Credit* Interest for all discount allowed to the business on our notes or on others' notes.

Rule For Merchandise Discount. *Debit* Merchandise Discount for all discount allowed to others on invoices of merchandise. *Credit* Merchandise Discount for all discount allowed to the business on invoices of merchandise.

PART III

INTRODUCTION

The work of Part III presupposes the completion of the elementary work in bookkeeping such as that presented in Parts I and II of this system or in the work of any other system that has developed the use of the journal, the cash book, the sales book, and the purchase book or invoice book as books of entry, and the ledger. It presupposes a knowledge of the ordinary business papers and their use.

The mechanical features of the work must not be neglected. The habits of neatness, carefulness, and accuracy that were learned in the beginning work must be continued. Pupils must not be allowed to neglect these things. They should become a part of each pupil. The proper study of bookkeeping should develop system and a pride in doing the work of the bookkeeper as it should be done in an office.

But of even more importance is the training the pupil should receive in the work of reasoning and analyzing. The plan of this text is to develop this power so that the pupil may acquire the power to become more than a routine bookkeeper. For this reason, new features of the work are fully presented and exercises given to develop his understanding of the subject. When these new features are presented in the *sets*, little explanation is given, so as to require the pupil to analyze the transaction and to relate it to the knowledge that he already has.

He is taught to keep his records and entries in such a way that they will give him the necessary information when wanted. He is taught different labor-saving devices and modern methods of handling sales, vouchers, etc. He is given a larger number of transactions for each financial period than in the elementary work so that the work of proving cash, of taking a trial balance, and of making statements may be more like actual business.

To help the pupil to analyze and to think many exercises are given. Most of these help in the gradual development of the subject but some may be omitted without destroying the plan of the work. In addition to these a number of questions and problems that are not

answered in the text are given to stimulate thought and to develop originality.

The pupil should understand that in the study of advanced bookkeeping he is studying modern office methods and systems and the elementary principles of accounting. He should be encouraged to bring to class other forms and methods suitable for different kinds of business. The pupil should understand that although the principles of bookkeeping and accounting are well established, he must learn to apply them to different systems and to different businesses.

The practice of reasoning out every transaction that is different and of analyzing the results of his work will help to give him the power to understand other systems and to adapt his knowledge to them.

CHAPTER XXV

CONTROLLING ACCOUNTS AND COLUMNAR BOOKS

In any business of considerable size with numerous customers and creditors, the taking of a trial balance is a difficult task if the accounts are all kept in one ledger. To make the work of the bookkeeper easier and to give more classified information, three ledgers are used instead of one and columnar cash books and journals are used. The use of columnar books is largely a result of the use of three separate ledgers but is also the result of a desire to post fewer items and to post more in total.

The three ledgers used are the *general ledger*, the *sales ledger*, and the *purchase ledger*.

The General Ledger. The general ledger contains accounts with the proprietors, both capital and personal, all other real accounts except customers' and creditors' accounts, all mixed accounts, and all nominal accounts. The customers' accounts are represented in total by the Accounts Receivable account and the creditors' accounts are represented in total by the Accounts Payable account.

The Sales Ledger. The sales ledger contains all the accounts with customers whether the account is opened with the customer or included under the C. O. D. account.

The Purchase Ledger. The purchase ledger contains all accounts with creditors for goods bought.

Advantages of Three Ledgers. The principal advantages of the use of three ledgers are as follows:

1. It makes it possible to prove up each ledger and ascertain its correctness separately.

2. The work of posting, checking, and proving the posting may be divided up.

3. The proprietor can quickly find out from the Accounts Receivable account at the end of each month how much customers owe him in total. He can find out from the Accounts Payable account how much the business owes creditors in total.

4. Loose-leaf ledgers may be used for both customers' and creditors' accounts. This is a decided advantage because as soon as an account becomes inactive and is closed, the sheet on which the account

is kept may be removed from the sales ledger or the purchase ledger and put into a transfer binder.

Accounts Receivable Account. In order to prove the sales ledger it is necessary to keep, in the general ledger, an account to which the totals of the different items that have been posted to the customers' accounts must be posted. This account is called Accounts Receivable. It is called a controlling account because it controls or proves the sales ledger.

Accounts Payable Account. In order to prove the purchase ledger, it is necessary to keep, in the general ledger, an account to which the totals of the different items that have been posted to the creditors' accounts must be posted. This account to which totals are posted is the Accounts Payable account. It controls or proves the purchase ledger.

In order to post totals to these controlling accounts in the general ledger, it is necessary to keep special columns in the journal and in the cash book for sales ledger and purchase ledger accounts. It is also necessary to post the other books of entry in a different way.

Books of Entry. The books of entry most commonly used with the three ledgers are the *purchase book* or the *invoice book*, the *sales book*, the *four-column journal*, and the *columnar cash book*. The purchase book will be used instead of the invoice book.

The Purchase Book. The purchase book will be used in the same way that it has been for all purchases of merchandise and for all memorandums of payments on these purchases. All accounts of creditors will be opened up in the purchase ledger. The entries must be posted daily to the credit of the respective personal accounts in the purchase ledger.

At the end of the month, the total purchases must be posted to the debit of Purchases, as heretofore, and to the credit of Accounts Payable. The posting of the total to Accounts Payable credit is necessary in order to prove up the purchase ledger with its controlling account, Accounts Payable. This total credit in the general ledger takes the place of the items that have been posted to the credit of the respective creditors' accounts in the purchase ledger.

Close the purchase book as follows:

				Total Purchases			8375 80
		31	12	Purchases	$8375.80		
			8	To Accounts Payable			8375 80

The Sales Book. The sales book for the first set in Part III will not be a bound book, but will be made up of the order blanks placed in a binder and totaled on a special sheet. The method of doing this will be explained in the next chapter.

The Cash Book. On the Cash Receipts side, columns are kept for the amounts of accounts that are to be posted to the general ledger, for those that are to be posted to the sales ledger, and columns for Sales Discount and for Cash Dr. In the General column is placed any amount that is to be posted to the general ledger. In the Accounts Receivable column is placed any amount that is to be posted to a customer's account in the sales ledger. If cash is received for a customer's account less discount, the amount of the account before the discount is deducted is placed in the Accounts Receivable column, the discount is placed in the Sales Discount column, and the cash received, in the Cash Dr. column.

Monthly, the total of the Accounts Receivable column is posted to the credit of the Accounts Receivable account in the general ledger to represent the various items that have been posted to customers' accounts in the sales ledger.

Sales Discount must be debited monthly for the total of the Sales Discount column. The principle is the same as in previous sets but it is considered advisable at this point to open up separate discount accounts for sales and for purchases.

On the Cash Payments side, columns are kept for the amounts of accounts that are to be posted to the general ledger, for those that are to be posted to the purchase ledger, for Purchases Discount, and for Cash Cr. Two columns are kept for general ledger accounts, the General and the Expense. All amounts that are to be posted to accounts in the general ledger, except Expense, are placed in the General column. All Expense items are placed in the Expense column and posted monthly only. Check, in the folio column, all items entered in the Expense column. In the Accounts Payable column is placed any amount that is to be posted to the debit of an account in the purchase ledger. The payment of an account less discount is entered on the same principle as the entry for the receipt of cash for an account less discount.

Monthly, the total of the Accounts Payable column is posted to the debit of the Accounts Payable account in the general ledger to represent the various items that have been posted to the debit of creditors' accounts in the purchase ledger.

Purchases Discount must be credited monthly for the total of the Purchases Discount column.

In closing the cash book, the sum of the first two columns on the Cash Receipts side must be proved with the sum of the last two columns, and the accounts affected shown. On the Cash Payments, the sum of the first three columns must be proved with the sum of the last two columns, and the accounts affected must be shown. The cash book must then be balanced by using the amount of the Cash Dr. and

Cash Cr. columns only. To prove cash, at any time, take the difference between these two columns.

The cash book illustrated is shown without the pages in the folio column. These should be inserted as each item is posted.

The Journal. Separate columns must be kept in the journal for each ledger to which items will be debited or credited. On the debit side, there must be columns for the general ledger and for the purchase ledger. No debit column for the sales ledger is necessary as the business does not give notes or drafts to customers on account, hence there will ordinarily be no debits to the sales ledger from the journal.

On the credit side, there must be columns for the general ledger and for the sales ledger. No credit column for the purchase ledger is necessary. (See illustration on page 216)

It is necessary to post the totals of the Accounts Payable and Accounts Receivable columns only as the items in the General columns, both debit and credit, have been posted to the general ledger daily.

CASH RECEIPTS, OCTOBER 19—

DATE		F	ACCOUNT	EXPLANATION	GENERAL	ACCTS. RECEIV.	SALES DISC.	CASH DR.
Oct.	1		Balance	On hand	8756 15			8756 15
	3		C. L. Darst	Inv. of 9/28, less 2%		787 75	15 76	771 99
	5		D. E. Hillis	Sgt. dft. on acct.		235 —		235 —
	8		Notes Receivable	J. A. Trent's note	750 —			750 —
	10		J. C. Ellis	On acct.		500 —		500 —
	12		C. L. Greene & Co.	Inv. of 10/2, less 2%		560 25	11 20	549 05
	16		Notes Receivable	C. L. Fenn's note	1200 —			1200 —
	16		Interest	30 da. on above	6 —			6 —
	20		D. E. Jobse & Co.	Inv. of 10/11, less 3%		897 80	26 93	870 87
	23		Notes Receivable	C. L. Speich's note	1037 50			1037 50
	24		N. O. Merrin	Sgt. dft. for inv. 9/20		1715 25		1715 25
	26		L. E. Lindsay	Inv. of 10/16, less 1%		416 40	4 16	412 24
	28		Notes Payable	Our 60-da. note	1000 —			1000 —
	31		D. J. Short & Co.	Inv. of 10/22, less 2%		575 50	11 51	563 99
	31		C. D. Curtiss	Inv. of 9/31		615 —		615 —
					12749 65	6302 95	69 56	18983 04
	31	√	General	Total	12749 65			
	31		Accts. Receivable Cr.	"	6302 95			
	31		Sales Disc. Dr.	"				69 56
	31	√	Cash Dr.	"				18983 04
					19052 60			19052 60
	31		Total Receipts					18983 04
								18983 04
Nov.	1		Balance	In bank	2130 —			2130 —

Returns and Allowances on Sales. A separate book of entry will be kept for returns and allowances on sales. In it should be entered all returned goods, rebates, and allowances that are to be credited to customers' accounts. Daily it will be posted to the credit of the customers' accounts affected. It is best to write an explanation in the customer's account in the ledger so as to show the nature of the credit. Monthly, the total should be posted to the debit of Returns and Allowances on Sales and to the credit of Accounts Receivable, the closing entry would be as follows:

Returns and Allowances on Sales	$57.50	
To Accounts Receivable		$57.50

Returns and Allowances on Purchases. In the same way, a separate book will be kept for returns and allowances on purchases. Daily it will be posted to the debit of the creditors' accounts affected. An explanation should also be written in the explanatory column of the ledger account. Monthly, the total should be posted to the debit of

CASH PAYMENTS, OCTOBER 19—

DATE	F	ACCOUNT	EXPLANATION	GENERAL	EXP.	ACCTS. PAYABLE	PUR. DISC.	CASH CR.
Oct. 3		Furniture & Fixtures	Bill of West Co.	125 80				125 80
5	√	Expense	Stationery		7 45			7 45
5		Collection & Ex.	On dft. on D. E. Hillis	25				25
7		C. D. Bender	Inv. of 10/8			983 40		983 40
8		Interest	36 da. disc., Trent's note	4 50				4 50
9		J. A. Bauer & Co.	Inv. of 9/30, less 2%			1728 65	34 57	1694 08
10	√	Expense	Stamps		6—			6—
10		D. C. Gibson & Co.	Inv. of 9/30, less 2%			1436 20	28 72	1407 48
12		Delivery Expense	Repairs to truck	18 25				18 25
13		Freight In	C. & N. W. R. R. Co.	78 90				78 90
15		Salaries	For one-half month	275—				275—
16		Interest	30 da. disc., Fenn's note	6 03				6 03
17		Notes Payable	Favor N. E. Bank	1500—				1500—
17		Interest	30 da. on above	7 50				7 50
19	√	Expense	Office supplies		2 45			2 45
20		G. L. Harris	Inv. of 10/10, less 2%			786 40	15 73	770 67
21		Freight Out	C. M. & St. P. R. R.	35 85				35 85
23		Collection & Ex.	On C. L. S.'s note	1—				1—
24	√	Expense	5 T Coal at $4.90		24 50			24 50
26		D. L. Barr	Inv. of 10/16, less 3%			1037 25	31 12	1006 13
27		Interest	60 da. disc., our note	10—				10—
28		Real Estate	975 12th St.	8500—				8500—
30		Freight In	C. & N. W. R. R. Co.	112 80				112 80
30		Salaries	One-half month	275—				275—
				10950 88	40 40	5971 90	110 14	16853 04
31	√	General	Total	10950 88				
31		Expense Dr.	"	40 40				
31		Accts. Payable Dr.	"	5971 90				
31		Purchases Disc. Cr.	"					110 14
31	√	Cash Cr.	"					16853 04
				16963 18				16963 18
31		Total Payments						16853 04
31		*Balance*	*In bank*					*2130*—
								18983 04

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ACCOUNTS PAYABLE	GENERAL	F		F	GENERAL	ACCOUNTS REC'BLE
1375 20	2867 45		Forward		2341 20	1901 45
	476 80	5	Notes Receivable			
			To H. G. Eckhardt	12		476 80
			His note at 30 da. on acct.			
			27			
250 —		15	C. L. Stone & Co.			
			To H. L. Gardner	13		250 —
			Drew a sight draft and remitted it on acct.			
			28			
450 —		16	B. C. Harmon			
			To Notes Payable	8	450 —	
			Gave note at 30 da. with int. at 6% on acct.			
2075 20	3344 25				2791 20	2628 25
	3344 25	√	General	√	2791 20	
	2075 20	7	Accounts Pay. Dr.			
			Accounts Rec. Cr.	6	2628 25	
	5419 45				5419 45	

Accounts Payable and to the credit of Returns and Allowances on Purchases.

Accounts Payable Account. After posting the totals from the books of entry to the controlling account of Accounts Payable, the account should contain the items shown in the following account, with a balance from the previous month.

Accounts Payable

19—						19—					
Oct.	31		C	15	8926 95	Oct.	1	Balance			7315 20
	31		J	7	3217 45		31		P	7	10175 30
	31		R.& Al.	1	78 90						
	31	*Balance*			*5267 20*						
					17490 50						17490 50
						Nov.	1	Balance			5267 20

Accounts Receivable Account. After posting the totals from the books of entry to the controlling account of Accounts Receivable, the account should contain the items shown in the account, with a balance from the previous month. (See illustration on page 217)

Purchase Ledger Proof. To prove the purchase ledger, list the balance of the creditors' accounts by names and amounts. The sum of these balances should equal the balance of the Accounts Payable account in the general ledger.

Accounts Receivable

19—							19—						
Oct.	1	Balance			3171	40	Oct.	31	C	14	5316	80
	31		S	12	8976	80		31	J	7	2275	50
								31	R. & Al.	2	67	25
								31	*Balance*		*4488*	*65*
					12148	20					12148	20
Nov.	1	Balance			4488	65						

Purchase Ledger Proof, October 31, 19—

3	Karger & Co.			386 90
4	F. Paul			1247 80
5	H. Owen & Co.			3896 55
6	E. B. Buckland			976 45
6	C. Offman & Co.			1652 80
8	D. E. Rosen			736 45
9	C. A. Reidy			2117 25
10	J. A. Ross & Co.			546 20
6	*Accounts Payable Balance*	*11560*	*40*	
		11560	40	11560 40

Sales Ledger Proof. To prove the sales ledger, list the balances of the customers' accounts by names and amounts. The sum of these balances should equal the balance of the Accounts Receivable account in the general ledger.

Sales Ledger Proof, October 31, 19—

3	H. Willer & Co.	478	90	
5	C. J. Hess	1217	80	
7	D. E. Bunce & Co.	3693	25	
7	F. J. Genz	987	55	
9	C. L. Kern & Co.	125	80	
9	D. E. Heston & Co.	1578	65	
10	D. J. Drake	1036	45	
11	J. A. Hofer	572	05	
12	C. E. Hayes	236	40	
5	*Accounts Receivable Balance*			*9926 85*
		9926	85	9926 85

General Ledger Proof. To prove the general ledger, take a trial balance of differences in the usual way. The Accounts Payable and

Accounts Receivable accounts take the place of the creditors' and customers' accounts respectively.

Exercise 51. Draw a cash book form like the model in this chapter, and make the following entries in it:

September 1. Balance of cash on hand, $5673.80.

Enter this in both the General and Cash Dr. columns.

1. Received of C. J. Joy cash for invoice of August 22, amounting to $438.55, less 2%.
3. Paid $25 for office books and stationery.
5. Discounted at National Exchange Bank, B. L. Pond's note for 30 days, dated August 21, for $850. The bank charges 6%.
8. The bank has charged your note of July 8, payable two months after date, with interest at 6%, for $750.
10. The bank has collected your sight draft, attached to bill of lading, on F. D. Fellers, for $857.50. The bank charged $\frac{1}{10}$% collection.
12. Received $175 of D. G. Minn, on account.
14. Paid Jackson Motor Co. $1200 for a motor truck.
15. The bank reports the sight draft for $500, on F. E. Enders & Co., on account of the shipment to them, collected, less $\frac{1}{10}$%.
17. Paid cash for repairs to the building owned and used by the business, $72.85.
18. Paid C. James & Co. for invoice of the 8th, amounting to $563.50, less 2%.
20. Paid cash for sacks and barrels for use in the business, $7.25.
21. Discounted at the National Exchange Bank, C. L. Winters' note for $950, dated August 18, payable 60 days after date, with interest at 6%. The bank charges 6% discount.
25. Paid freight on a consignment of goods received from L. N. Norris, to be sold on commission, $18.50.
27. Received of B. A. Durbin cash for invoice of September 17, amounting to $1012.75, less 2%.
29. Paid salaries for the month as follows: Bookkeeper $100; stenographer and clerk, $60; deliveryman, $50.
30. The proprietor withdrew $75 for personal use.

Close the cash book like the model in this chapter.

Exercise 52. Draw a four-column journal like the model in this chapter and make the following entries in it:

October 3. Accepted C. D. Ray's draft at 30 days, for $387.15, for invoice of September 30.

8. Drew a sight draft for $500, on J. A. Baer, in favor of G. L. Lien, and remitted it to him on account.
10. Received H. E. Nacey's note at 30 days, with interest at 6%, for $375, on account.
15. Accepted D. L. Jasper's draft at 30 days, for $300, on account of the consignment of goods received from him to be sold on commission.
25. Transferred H. E. Nacey's note for $375, dated October 10, with interest at 6%, to M. E. Irving, on account. He agrees to take it at the face value plus the interest to date.
30. Shipped to B. E. Burton & Co. a shipment of merchandise amounting to $436.50, to be sold on commission.

Close the journal like the model journal in this chapter.

CHAPTER XXVI

METHODS OF RECORDING SALES AND VARIOUS LEDGER FORMS

The use of a bound sales book is no longer common in business. It necessitates too much copying and makes it difficult for more than one to work on the sales book at the same time. Various methods have come into use to take its place. The student should be familiar with the most important of these.

The Duplicate Charge System. In this system, an invoice is made out and at the same time a duplicate is made out. These may be made out as carbon copies in pencil, on the typewriter, or by the use of a duplicating pen. The original is sent to the customer and the duplicate filed in a binder. This binder of duplicate invoices is the sales book. The invoices may be in any form suitable to the particular business and the duplicate invoice may contain certain printed matter for record purposes that is not contained on the original invoice.

From the duplicate invoices, the accounts of customers are debited and the pages of the ledger accounts put on the duplicate invoices. This is all that is necessary until the end of the month. Then the total sales for the month must be found. The usual method of doing this is by the use of the Sales Recapitulation Sheet.

Sales Recapitulation Sheet. On this sheet are listed the invoices by number and amount. The total is found and Sales is credited from this sheet and Accounts Receivable debited. If freight is frequently prepaid for customers and charged to them, a separate column should be kept for Freight Out so that it will not be included in the total posted to Sales.

A modification of this system is used by many businesses. When an order comes in, it is entered on a special order blank containing the information necessary for making out the invoice and also various details for the records of the business. The order form contains all the information necessary for posting. It is bound in a binder and the orders numbered consecutively. This constitutes the sales book. The invoices are made out in the usual way and sent to the customers.

In this method the sales recapitulation sheet is made out the same as in the duplicate charge system. In both methods, it is best to file the sales recapitulation sheet in the binder on top of the last invoice or order included in it.

ORDER BLANK

HIBBARD, SPENCER, BARTLETT & CO.

State Street Bridge, Chicago, Illinois

ORDER NO. 275 RECEIVED Nov. 10, 19— BILLED Nov. 11, 19—

SOLD TO C. E. Loomis, L. F. 16

Rockford, Ill.

TERMS 2/10, n/30 SALESMAN L. A. Ray

SHIP TO Same

SHIP BY C. B. & Q. R. R. DATE SHIPPED Nov. 12, 19—

✓	5	doz. Dexter Handsaws No. 60	5	75	28	75		
✓	10	Steel Wheelbarrows No. 1720	3	45	34	50		
✓	12	Counter Scales No. 507	16	55	198	60		
✓	1½	doz. Jersey Vises No. 114	7	95	11	93	273	78

Another modification of the Duplicate Charge system uses a blank sales sheet for the duplicate on which the invoices are made out in carbon, one below the other. These duplicate sales sheets are of the size of the ordinary sales book and are bound in a binder. These constitute the sales book. No sales recapitulation sheet is necessary as each sheet is forwarded to the next the same as in the bound sales book. This method cannot be used to advantage except when the billing is done on the typewriter.

The Sales Journal. Many firms do not like to post from the duplicate invoice or from the order blank, nor to use loose-leaf sheets for the total of sales. They prefer a more permanent record from which to post.

For this purpose, the sales journal is used. Either the orders are kept and filed or the duplicate invoices are filed as a record of the articles sold but no posting is done from them.

From the order blank or from the duplicate invoice, an entry is made in the sales journal. The entry should contain the following: date, folio, name of customer, address of customer, order or invoice number, terms of sale and amount. It may contain distributive columns for various kinds of sales.

Sales Journal

DATE 19—		F	NAME	ADDRESS	ORDER NO.	TERMS	AMT.	
Nov.	28		Forward				6897	20
	29	15	C. J. Sprague	City	576	2/10,n/30	417	25
	30	12	D. L. Hyde	Aurora, Ill.	577	n/30	318	90
	30	11	J. D. Beardslee	Beloit, Wis.	578	Sgt. Dft.	116	95
			Total Sales				7750	30
	30	9	Accounts Receivable			$7750.30		
		16	To Sales				7750	30

Retail Bill and Charge System. Many large retail stores use the Bill and Charge system. From the duplicate sales sheet made out by a clerk in pencil, the items are entered on the typewriter on a statement of account form and a duplicate made at the same time. These are attached to each other by a perforation and are kept in files arranged alphabetically until the end of the month. Then they are torn apart and the original sent to the customer. The duplicate is kept in the files of the store. With this duplicate statement, a card ledger is usually kept in which the sales are entered each day in total and the payments posted to it from the cash book, as well as to the statement of account.

Various Ledger Forms. The ledgers that have been used in the practice work have been bound ledgers ruled in the ordinary way. In many businesses it is desirable to use loose-leaf or card ledgers. It is also of advantage in many businesses to use some other ruling than the ordinary ledger ruling. These ledgers will now be explained.

Loose-Leaf Ledgers. There are many advantages in favor of loose-leaf ledgers especially for sales and purchase ledgers.

The first advantage is the ability to keep none but active accounts in the ledger. As soon as an account is paid in full or closed, the ledger sheet is removed from the ledger and placed in a transfer binder. If the account becomes active again, the sheet is removed from the transfer binder and put back into the ledger binder. In this way, when a trial balance is taken, none but active accounts are to be

found in the ledger. Every account in the ledger then shows a balance.

Another advantage of loose-leaf ledgers is that they are self-indexing, as the ledger sheets are placed in the ledger after the proper index tabs, and no time need be spent in looking up the pages of the accounts to which the entries are to be posted. In posting from the books of entry a check mark should be used instead of the ledger page as when a bound ledger is used. This check mark should be placed in the folio column of the book of entry *after* the item has been posted to the ledger.

Another advantage is that it is more suitable to a growing, expanding business than a bound ledger.

One invariable rule should be followed in opening up accounts in a loose-leaf ledger and that is that *but one account should be opened up on a sheet.* The size of the sheet may be changed to suit the individual business.

About the only disadvantage of loose-leaf ledgers lies in the use of a poor binder and poor paper. In that case the sheets may not hold and there is danger of losing the sheets and of losing some accounts.

A loose-leaf ledger with a Balance column is illustrated here.

LOOSE LEAF LEDGER WITH BALANCE COLUMN

SHEET NO._____ ACCOUNT NO._____

RATING

BUSINESS

NAME E. B. Dayton

ADDRESS 893 North Ave., City

DATE		ITEMS		FOLIO	DEBITS	CREDITS	BALANCE
19—							
Apr.	5	m/30	S	106	412 80		412 80
	25	1/30, m/60	S	210	217 50		630 30
May	5		C	18		400	230 30
	15	m/30	S	296	309 60		539 90
	25		J	21		230 30	309 60

The Card Ledger. The card ledger is used largely by businesses that

have a large number of accounts, many of which run for but a short time. The principal advantages are the same as for loose-leaf ledgers. The active accounts are kept in a ledger file and when paid are transferred to a transfer file. The ledger is self-indexing, the ledger cards being placed in the file after the proper index cards.

Besides having the same advantage of being suitable to a growing, expanding business, it enables a number of persons to work on the accounts at the same time. It also enables the business to make use of inexperienced clerks to take the cards from the file and arrange them in the proper order for posting. They may also put them back into the ledger file and in that way save the time of the bookkeeper.

The card ledger also makes it possible to cross-index the cards for special purposes and to use tabs to indicate the accounts that are past due, those to which collection letters have been sent, etc.

The big disadvantage of the card ledger lies in the fact that cards may be taken out for reference and misplaced or lost.

Various forms of ledger ruling may be used with the bound ledger, the loose-leaf ledger, or the card ledger.

One of the most popular is the ledger that has a Balance column on one side or both. It enables the bookkeeper to find the balance of the account often and to record the balance, so that less work needs to be done at the end of the month. This has already been illustrated. This form is a very satisfactory one for a loose-leaf ledger for customer's accounts.

Ledger with Wide Detail Column. In some businesses it is desirable to have a special wide detail column in which the items charged may be detailed. Such a form is illustrated below.

C. C. Gilles

19—								19—						
May	8	5 L. L. Ledgers	S	190	45	—		June	8	C	48	50	75	
	21	1 Bill and Charge Outfit	S	254	5	75		July	5	C	54	250	—	
June	8	1000 Catalogs	S	316	250	—								
July	9	5M Letter Heads	S	295	12	50								

The Center-Column Ledger. This form of ledger is preferred by some. It has the advantage of bringing the amount columns together. This makes it easier to compare debit and credit amounts and also makes ruling easier. The principal disadvantage is in the fact that the date, details, and folio on the credit side must be written right to left instead of in the usual way.

C. E. Cory

19—										19—	
Jan.	8		S	16	1275—		1000—	8	J	Feb.	3
Feb.	15		S	24	316—		500—	14	C	Mar.	5

Other Rulings are common in special businesses to give particular details. These are most common in card ledgers. Some of the most common forms are those for real estate, insurance, magazine or newspaper subscriptions or advertisements, loans, ledgers suitable to different professions, such as those for lawyers, physicians, dentists, etc.

Self-Proving Ledgers. In this form of ledger, the names of the accounts are written down the side of a page, instead of at the top. The account runs across the page instead of down. The ledger is provided with debit, credit, and balance columns in sections for months, weeks, or days. Short leaves are provided so that the names of the accounts need be written only once a year. The ledger gets its name from the fact that each section of accounts on a page may be proved up separately as often as desired. The sum of the debit balances at the beginning of the month added to the debit postings must equal the sum of the balances at the end of the month and the credit postings. Credit balances are usually written in red ink to distinguish them from debit balances. This form of ledger has the advantage of proving up the posting of each page separately and thus errors can be localized.

Self-Proving Ledger

			January, 19—											
	NAMES	BAL.	D.		F.	DEBITS	D.		F.	CREDITS	BAL.			
1	Lobas & Co., C. H.	316 20	8	S	316	412 30	10	C	36	300—	536 30			
2	896 Chestnut St.		20	S	425	107 80								
3														
4	Lukins, L. A.	537 80	12	S	347	345 30	5	C	34	315 80	357 30			
5	Detroit, Mich.						20	J	15	210—				
6														
7	Mabley Co., The J. A.	1290 75	6	S	297	837 50	6	C	36	1290 75	669 20			
8	Dayton, Ohio		15	S	365	415 20	16	C	36	700—				
9			25	S	392	116 50								
10														
11														

The principal disadvantage of the self-balancing ledger is in the fact that it is more difficult to obtain information from an account

running across the page than from one running down the page. Especially is this true in rendering statements of account to customers.

A mercantile business that uses this form of ledger usually has it divided into weekly or monthly sections. Banks that use this form have it divided into daily sections. In this form it is usually called the Boston Bank Ledger.

CHAPTER XXVII

WHOLESALE HARDWARE

SET VII

TRANSACTIONS FOR OCTOBER 15-31

Selling Price List

ARTICLE	KIND	NO.	QUANTITY	PRICE
Axes	Steel	40	doz.	$13.55
Bit Braces		3202	doz.	23.35
Bits	Twist Drill	109A	set	1.15
Chisels	Very Best	2072	doz.	2.90
Clamps	Adjustable	R225	doz.	6.45
Compasses	Eagle	569	doz.	1.60
Files	New American	878	doz.	1.45
Forks	Hay	2140	doz.	5.35
Gauges	Stanley	705	doz.	1.20
Gimlets		2175	doz.	.80
Hammers	Very Best	212	doz.	4.70
Hatchets	O. V. B.	420	doz.	8.35
Knives	Pocket	1321	doz.	13.20
Levels	Stanley	155	doz.	40.90
Mallets	Tinners'	2120	doz.	2.85
Padlocks	Brass	882	doz.	.75
Planes	Stanley Jack	370	each	1.55
Plows	Garden	426	each	5.40
Punches	Spring	440	doz.	3.25
Rules	Boxwood	172	doz.	4.55
Saws	Cross Cut	080	each	3.55
Saws	Dexter Hand	605	doz.	5.75
Scales	Counter	507	each	16.55
Scales	Platform	M108	each	24.65
Screw Drivers		302	doz.	3.35
Shears	Straight	1044	doz.	5.65
Sickles	Little Giant	1263	doz.	3.75
Skates	B. & B.	494	pair	1.45
Step-ladders		670	each	.95
Try Squares		712	doz.	3.40
Thermometers		1452	doz.	2.60
Vises	Jersey	114	doz.	9.95
Wheelbarrows	Steel	1720	each	3.45
Wrenches	Coe	640	doz.	7.25

The Objects of this set are as follows:

1. To teach the use of special ledgers for customers' and for creditors' accounts.
2. To teach the use of controlling accounts.
3. To teach the use of columnar books of entry.
4. To teach the use of a ledger with a balance column.
5. To illustrate the method of adjusting interest between partners.
6. To furnish a sufficient number of transactions for each day's work in the book so as to make the cash proof as near like actual business as it is possible to make it.

Books Used. The books of entry used in this Set are the *special column cash book*, the *loose-leaf sales book*, the *purchase book*, and the *four-column journal*. A *general*, a *sales*, and a *purchase ledger* will be used.

The cash book, purchase book, and journal will be used as already explained.

The Sales Binder. When an order is received, it is entered on an order blank, which is filed in a sales binder. This is the sales book. The posting is done from this order blank.

From the order blank, an invoice is made out and sent to the customer.

If the teacher desires, the making out of *invoices* may be omitted.

Incoming Papers. No incoming papers are received in this Set. A pad of blank checks and of blank N. Y. drafts is furnished. On these, incoming checks and drafts may be made out. On the receipt of a check or a N. Y. draft, the words *Incoming Check* or *Incoming N. Y. Draft* will be printed in the text for ready reference. These may be made out daily.

Proving Cash. It is desirable that the check book and pass book be used in order that cash may be proved daily. If the incoming checks and N. Y. drafts are made out, deposits may be made in the usual way *daily*. If these papers are not made out, the deposits should be entered in total daily from the entries in the cash book.

Make all payments by check.

The method shown in the appendix, page i, is recommended for this Set.

Outgoing Papers. Outgoing papers are not essential to the working of this Set, but outgoing checks and outgoing invoices are recommended. All other outgoing papers are omitted as the student has had sufficient drill in making them out.

Trading Accounts. The following trading accounts will be used in this Set: Purchases, Sales, Freight In, Returns and Allowances on Purchases, Returns and Allowances on Sales, and Merchandise Trading.

October 15. E. B. Gordon and C. A. King have this day entered into a copartnership agreement, to engage in the wholesale and jobbing hardware business at 27 W. Lake Street, Chicago, Ill., under the firm

name of E. B. Gordon & Co. The special terms of the agreement are:

1. E. B. Gordon shall contribute cash, $9000, and C. A. King shall contribute cash, $6000.

2. The partners shall share profits and losses equally.

3. Statements shall be made monthly and the books closed monthly.

4. Each partner shall devote his entire time to the business.

5. Monthly each partner shall be credited with $125 salary. Each partner may draw out monthly not to exceed $125.

6. Neither partner shall withdraw any part of his investment.

7. The partnership shall continue for two years unless sooner dissolved by mutual agreement.

8. Interest at 6% per annum shall be computed at the end of each calendar month on all sums invested, on all salary credited to the partners' accounts, and on all sums withdrawn.

Two checks are received for the respective partner's investments. Enter them in the usual way. (Incoming Checks)

Deposit the checks.

Lease the store building at 27 W. Lake Street, Chicago, Ill., from C. N. Passel, for $150 a month. Pay for one-half a month's rent. Open a Rent account.

Pay a bill of the Whipple Furniture Co., for furniture and fixtures, $57.80.

Pay D. L. Laird for making alterations to the building to make it suitable for the firm's business, $17.50. Charge the Rent account.

The firm has engaged the Student as bookkeeper and cashier at a salary of $60 a month.

The firm has accepted the offer of the Charles Hardware Co., City, to sell their stock of hardware for $3625 on the terms, n/30, and their delivery truck for $1125, cash. Give them a check for $1125.

Employ Charles Sanborn as traveling salesman at a salary of $125 a month and expenses. Give him a check for $100 for traveling expenses.

Charge this check to his account in the general ledger, with the word Salesman added. When he reports his expenses, you will credit his account through the journal and debit Traveling Expenses account.

If there were a large number of salesmen, it would be best to keep the accounts of traveling salesmen in a separate ledger with one controlling account in the general ledger called Advances to Traveling Salesmen.

Employ James Roach as deliveryman at a salary of $70 a month.

Prove cash, make a report, and post.

In posting the entries for this day, all accounts to be debited or credited are general ledger accounts.

Open accounts in the general ledger, two on a page, as follows:

Proprietors' Capital and Personal accounts and the Asset Accounts, pages 1-6

Liability Accounts, pages 7-9

Nominal Accounts, pages 10-21

Open accounts in the purchase ledger in the order that they occur in the transactions, eight on a page, on page 22.

Open accounts in the sales ledger in the order that they occur in the transactions, six on a page, on pages 23-26.

October 16. Buy an invoice of hardware of The Roth Hardware Co., St. Louis, amounting to $1786.50. Terms: 2/10, n/30.

Buy a typewriter of the Office Supply Co. for cash, $75.

Whenever a purchase is made for cash, it is understood that a check is to be written in payment.

Pay the freight bill on the invoice of hardware received today by check in favor of the Wabash R. R., $36.85.

Insurance policies have been taken out on the stock of hardware, the fixtures, and the delivery truck, as follows: Hardware, $6000; furniture and fixtures, $125; and delivery truck, $1000.

Pay the premium by check in favor of the Hubbel Insurance Co. at the rate of 55 cents for each $100 in the risk. The policies run for one year.

Make a complete memorandum in the journal in addition to the entry.

J. B. Mauer & Co., Sioux City, Iowa, order:

5 doz. Steel Axes No. 40
10 Cross Cut Saws No. 080
6 doz. O. V. B. Hatchets No. 420
8 Counter Scales No. 507

Terms: 2/10, n/30.

Enter this order on the Order Blank in your outfit. Make out an invoice from it. File the order in your Sales Binder and place the invoice in your Outgoing Papers envelope. The filing of the order in the Sales Binder takes the place of the entry in the sales book.

C. L. Walters, Charleston, Ill., orders:

3 doz. Very Best Chisels No. 2072
6 doz. Pocket Knives No. 1321
10 Steel Wheelbarrows No. 1720

Terms: cash.

Fill this order in the same way as in the preceding transaction. Each order is to be filled in this way, without further instructions.

A New York draft is received in payment of this order. (Incoming New York Draft) Deposit the draft. Prove cash, make a report, and post.

Posting from the Order Blank. In posting from the Order Blank, put the page of the ledger account on the Order Blank and put S and the number of the Order Blank in the ledger account. It is often of decided advantage to have the terms of sale in the ledger account so that the time when an invoice should be paid may be found without referring to the sales binder. You will be required to do this for this set.

When you post the sale to the account of J. B. Mauer & Co., you should put 2/10, n/30, in the explanatory column of their account in the sales ledger. In posting the sale to C. L. Walters, put Cash in the explanatory column.

If the firm did not expect to make Mr. Walters a regular customer, the entry might be checked in both the cash book and in the sales binder and no account opened up for him in the sales ledger.

Find the balance of each sales ledger account and of each purchase ledger account after each item posted, and extend the balance to the *Balance* column.

October 17. Buy an invoice of hardware from C. Merton & Co., New York, amounting to $786.40. Terms: 2/5, 1/10, n/30.

Pay the bill of the Pleyte Printing Co. for business stationery, $9.50.

Buy packing boxes of the Fiber Box Co., City, for $157.50. Terms: cash, less 2%.

Pay this bill. Deduct the discount before making the entry. Do not enter the discount in the cash book. Charge it to Purchases.

Pay the freight on incoming goods by check in favor of the Grand Trunk R. R., $21.35.

Pay the bill of the Fox Auto Co. for gasoline, motor oil, and motor supplies, $27.25. Charge Delivery Expense.

M. E. Exeter & Co., Canton, Ohio, order:

6 doz. Bit Braces No. 3202
5 doz. Adjustable Clamps No. R225
8 Platform Scales No. M108
2 doz. Stanley Levels No. 155

Terms: draft, 10 days after date.

Make no entry for the draft until it is reported accepted.

D. J. Silber, Keokuk, Iowa, orders:

15 doz. Boxwood Rules No. 172
9 doz. Dexter Hand Saws No. 605
12 doz. Coe Wrenches No. 640
15 doz. O. V. B. Hatchets No. 420

Terms: 2/5, 1/10, n/30.

J. H. Harlan, South Bend, Ind., orders:

8 doz. Spring Punches No. 440
18 doz. Very Best Hammers No. 212

20 doz. Screw Drivers No. 302
8 doz. Straight Shears No. 1044

Terms: 2/10, n/30.

B. C. Deering, Battle Creek, Mich., orders:

50 Step-ladders No. 670
16 doz. Stanley Gauges No. 705
16 Counter Scales No. 507

Terms: note at 30 days, with interest at 6%. The note will be received later.

Prove cash, make a report, and post.

October 19. Pay the rent of a garage for the motor truck for the balance of the month, by check in favor of N. E. Sivyer, $3.

Buy an invoice of tools of the Cleveland Tool Co., Cleveland, Ohio, amounting to $375.80. Terms: 30-day draft. The draft is dated October 17, and has been honored in payment of the invoice.

Make the entries for the purchase and for accepting the draft.

In what ledger will the account of the Cleveland Tool Co. be opened up? In what column of the journal should the debit to this account be entered? Why?

Buy two loading trucks of the Halter Mfg. Co., for $7.75 each. Pay for them by check. Open an account for Warehouse Equipment.

C. L. Norris & Co., Altoona, Pa., order:

25 doz. New American Files No. 878
12 doz. Tinners' Mallets No. 2120
15 doz. Jersey Vises No. 114

Terms: n/30.

J. A. Dressler & Co., Peoria, Ill., order:

$2\frac{1}{2}$ doz. Stanley Levels No. 155
18 Stanley Jack Planes No. 370
30 doz. B & B Skates No. 494
5 doz. Thermometers No. 1452

Terms: 2/10, n/30, f. o. b., Peoria, Ill.

Since competition is strong at this point, we have agreed to pay the freight to destination. Pay it by check in favor of the Chicago & Alton R. R., $9.35.

This is a selling expense and should be charged to Freight Out.

P. A. Perry, Omaha, Neb., orders:

5 doz. Adjustable Clamps No. R225
8 doz. Pocket Knives No. 1321
50 doz. Brass Padlocks No. 882
8 doz. Straight Shears No. 1044

Terms: sight draft.

Make no entry for the draft till it is reported collected.

A record may be made in the pass book on the last page to show that it is left for collection.

Prove cash, make a report, and post.

October 20. Receive of M. E. Exeter & Co. their acceptance of our 10-day draft for the sale to them on the 17th.

The debit and credit are the same as for similar transactions you have had. To decide in what column to place each amount, ask the question as to what ledger will contain the debit account, and what the credit account. In what ledger is the account of M. E. Exeter & Co. opened up? Do not neglect the explanation. Refer to the model journal as an example. (Page 216)

Receive of B. C. Deering his note at 30 days, with interest at 6%, for the sale to him on the 17th. The note is dated October 19.

Pay $5 for stamps. Draw a cash check.

Buy an office safe of the Haskin Safe & Lock Co., for $325. Terms: n/30.

Where should the entry for this purchase be made? Why?

The Accounts Payable account is usually used for the accounts of creditors for merchandise purchased. Place the credit in the General column and open the account in the general ledger.

Buy five tons of coal of the Pennsylvania Coal Co. at $4.95 per ton. Pay the bill.

D. J. Silber reports one dozen Coe Wrenches sold him in the invoice of the 17th unsatisfactory. Give him credit for them.

Enter in the Returns & Allowances on Sales book. Name the article returned in the explanatory column.

What is the debit and credit effect of this entry? Why is a separate book kept for transactions of this kind?

H. Decker, City, orders:

3 doz. Bit Braces No. 3202
36 sets Twist Drill Bits No. 109A
15 Stanley Jack Planes No. 370
6 doz. Try Squares No. 712

Terms: 2/5, n/30.

J. A. Green & Co., Butte, Mont., order:

8 doz. Eagle Compasses No. 569
5 doz. Jersey Vises No. 114
15 Platform Scales No. M108

Terms: 2/10, n/30, f. o. b., Minneapolis.

Pay the freight on this sale by check to the C. M. & St. P. R. R., $7.25.

C. L. St. John, Sedalia, Mo., orders:

20 Garden Plows No. 426
15 Cross Cut Saws No. 080
8 Counter Scales No. 507

Terms: 2/10, n/30.

Prove cash, make a report, and post.

October 21. Pay C. Merton & Co. for invoice of the 17th, less discount.

Do not forget to make a memorandum of this payment in the purchase book, in addition to the cash book entry.

Receive a check of D. J. Silber, for the balance of the invoice of the 17th, less discount. (Incoming Check)

Pay the bill of the Chicago Scales Co. for a platform scales for the warehouse, $57.50.

Enter into a contract with the Kramer Advertising Co. to advertise the firm's business, for $280. Terms: one-half cash; balance in 30 days. Charge Advertising in the journal.

Give them a check for one-half of the bill.

Discount at National Exchange Bank, M. E. Exeter's acceptance of the 17th. The bank charges 6%.

Give the Jonas Motor Co. a check for $8.25 for repairs to the motor truck.

Buy an invoice of saws of the Dexter Saw Co., Hartford, Conn., amounting to $1097.80. Terms: 2/15, n/60.

One dozen Steel Axes have been returned to The Roth Hardware Co. as unsatisfactory. They have credited our firm for them at $10.40. Enter in the special book for this purpose.

What is the debit and credit effect of this entry?

F. E. Evans, Columbus, Ohio, orders:

5 doz. Very Best Hammers No. 212
3 doz. Dexter Hand Saws No. 605
1 doz. Stanley Levels No. 155

Terms: express C. O. D.

M. E. Clinton & Co., Ft. Wayne, Ind., order:

2 doz. Bit Braces No. 3202
24 sets Twist Drill Bits No. 109A
3 doz. O. V. B. Hatchets No. 420

Terms: cash, less 3%. Do not deduct the discount on the order.

A N. Y. draft is received with the order. (Incoming N. Y. Draft)

J. A. Rogers & Co., Appleton, Wis., order:

5 doz. Steel Axes No. 40
3 doz. Tinners' Mallets No. 2120
12 Counter Scales No. 507
25 pair B & B Skates No. 494

Terms: note at 30 days, for $150, balance on account, 10 days.

The note is received with the order.

Deposit the check and the N. Y. draft received today. $\frac{1}{10}$% collection on the check.

Prove cash, make a report, and post.

October 22. Buy an invoice of hardware of the Simmons Hardware Co., St. Louis, amounting to $1895.75. Terms: 2/10, n/30.

Your bank reports the collection of the sight draft on P. A. Perry, in payment of invoice of October 19. Collection $\frac{1}{10}\%$.

Receive a check of C. L. Norris & Co., on account, $100. (Incoming Check)

J. A. Dressler & Co. report two dozen thermometers on invoice of the 19th unsatisfactory. Give them credit for them.

Mr. Gordon has been looking for a suitable building to purchase for the firm's use. He has not yet found one. The firm has decided to invest part of its capital temporarily in stocks and bonds until a suitable permanent investment is found. They have purchased of C. B. Myers & Co. three C. M. & St. P. Convertible 4% Bonds of a par value of $1000 each, at $95\frac{1}{4}$, brokerage, $\frac{1}{8}\%$.

Pay for them by check.

The market price of $95\frac{1}{4}$ means that every dollar in the par value of the bonds costs $95\frac{1}{4}¢$, and an additional $\frac{1}{8}¢$ for brokerage. The cost of the bonds is found by multiplying the par value by $.95\frac{3}{8}$.

Charge the total cost to the Stocks and Bonds account.

Stocks and Bonds Account. Firms frequently make either temporary or permanent investments of this kind. A distinction must be made between an investment in stocks or bonds that are reliable and that will not fluctuate in value to any great extent and a speculation in stocks and bonds that have no permanent, stable value. For a mercantile business, nothing of a speculative nature should be considered.

Two accounts should be kept for dealings in stocks and bonds, one the investment account of Stocks and Bonds, the other, the nominal account of Stocks and Bonds Expense and Income.

The account of Stocks and Bonds should be debited for the cost, including brokerage, of the stocks and bonds. It should be credited for the *cost* of the stocks and bonds sold. The account should at all times show a debit balance, if anything, and is therefore, an asset.

Stocks and Bonds Expense and Income Account. This account is kept for all expenses incurred in holding the stocks or bonds, such as assessments on stock, and for all income, such as, dividends on stock or interest on bonds. It must also show any profit or loss when the stocks or bonds are sold.

Debit Stocks and Bonds Expense and Income for all expenses incurred in holding the securities and for any loss sustained in the sale of the securities.

Credit Stocks and Bonds Expense and Income for all income from securities and for any profit on the sale of securities.

This is a nominal account and is closed into Profit and Loss in the usual way.

The firm has also purchased of D. J. Matthews & Co., fifty shares Illinois Central Stock, of a par value of $100 each, at 107⅛, brokerage, ⅛%.

Pay for them by check.

G. A. Kennedy, St. Louis, Mo., orders:

8 doz. Very Best Chisels No. 2072
5 doz. Pocket Knives No. 1321
15 Cross Cut Saws No. 080

Terms: 2/10, n/30, f. o. b., St. Louis.

Prepay the freight by check in favor of the Wabash Railroad, $9.60.

C. G. Lynch & Co., Duluth, Minn., order:

3 doz. Stanley Levels No. 155
12 doz. Boxwood Rules No. 172
6 doz. Screw Drivers No. 302
4 doz. Try Squares No. 712

Terms: draft at 10 days' sight.

D. L. Jackson & Co., Memphis, Tenn., order:

24 Garden Plows No. 426
5 doz. Little Giant Sickles No. 1263
12 doz. Coe Wrenches No. 640

Terms: n/30.

Deposit the check on hand. Collection $\frac{1}{10}$%.

Prove cash, make a report, and post.

October 23. Twelve wheelbarrows have been returned to the Simmons Hardware Co. as faulty. They have given us credit for them at $2.85.

M. E. Clinton & Co. report two dozen O. V. B. Hatchets unsuited to their trade. As they have paid for this purchase in full, they should be given a check for the value of the goods returned. Find the selling price of the goods returned. Then find the discount on it at 3%. Write a check for the difference.

Make an entry in the cash book on the Receipts side for the discount which was allowed on the articles returned when the goods were sold. Enter the discount in the General column. Make an entry on the Payments side for the value of the goods returned before the discount is deducted.

Buy filing cabinets for use in the office, from the Moore Supply Co., for cash, $48.50. Pay the bill.

Take from stock for use in the warehouse:

2 O. V. B. Hammers at 30¢
2 Dexter Hand Saws at 35¢
1 Bit Brace at $1.65
1 set Twist Drill Bits at 90¢

This is not a sale. Where should it be entered? What account should be debited? You have already opened an account to which this should be charged.

Receive a check of J. A. Rogers & Co. on account, $100. (Incoming Check)

Buy an invoice of hardware from D. Ollum & Co., New York, amounting to $1093.65. Terms: n/30.

Pay the freight on invoices of hardware by check in favor of the Morse Transfer Co., $98.75.

D. J. Field & Co., Grand Rapids, Mich., order:
6 doz. Adjustable Clamps No. R225
12 doz. Very Best Hammers No. 212
8 doz. Spring Punches No. 440
Terms: cash, less 3%.
A New York draft is received in payment. (Incoming N. Y. Draft)

G. A. Evers & Co., Denver, Colo., order:
5 doz. Gimlets No. 2175
24 Stanley Jack Planes No. 370
8 doz. Straight Shears No. 1044
4 doz. Coe Wrenches No. 640
Terms: 2/10, n/30.

L. E. Widule, Lincoln, Neb., orders:
4 doz. Dexter Hand Saws No. 605
8 Platform Scales No. M108
3 doz. Jersey Vises No. 114
Terms: draft with B/L attached.
The draft is left for collection.

H. I. Wheeler, Lima, Ohio, orders:
3 doz. Steel Axes No. 40
$1\frac{1}{2}$ doz. Stanley Levels No. 155
8 doz. Screw Drivers No. 302
5 doz. Try Squares No. 712
Terms: 2/10, n/30.

Deposit the N. Y. draft and the check on hand. $\frac{1}{10}\%$ collection on the check. Prove cash, make a report, and post.

October 24. Receive a check from the Adams Express Co. for the amount of the sale to F. E. Evans on the 21st. (Incoming Check)

The traveling salesman, Charles Sanborn, reports his expenses to date, $37.80.

This amount has been expended from the amount charged to him when the advance was made. It must now be taken out of his account and charged to Traveling Expenses. Make a journal entry.

E. B. Gordon withdraws $50 for personal use by check.

C. A. King withdraws $60 for personal use by check.

Receive a check of H. Decker, for invoice of the 20th, less discount. (Incoming Check)

H. A. Vinton, Kenosha, Wis., orders:

3 doz. Bit Braces No. 3202
36 sets Twist Drill Bits No. 109A
20 doz. New American Files No. 878
15 Counter Scales No. 507

Terms: cash, $200; balance, account 30 da.

Receive a check for $200 in part payment of this invoice. (Incoming Check)

P. A. Perry, Omaha, Neb., orders:

40 Step-ladders No. 670
25 Steel Wheelbarrows No. 1720

Terms: 2/10, n/30.

Deposit the three checks on hand. $\frac{1}{10}\%$ collection on H. A. Vinton's check.

Prove cash, make a report, and post. Rule and forward both pages of the cash book.

October 26. Buy an invoice of tools of the Ohio Tool Co., Findlay, Ohio, amounting to $678.95. Terms: 2/10, n/30.

Receive a check of J. B. Mauer & Co. for invoice of the 16th, less discount. (Incoming Check)

Pay The Roth Hardware Co. for the balance of the invoice of the 16th, less discount.

Have you recorded this payment in the purchase book?

Pay the freight bill on the invoice of tools, by check in favor of the Nickel Plate R. R., $26.85.

Buy a bill of boxes for packing hardware, of the Reber Box Co., $15.25. Pay the bill.

C. A. King takes for personal use, one Bit Brace No. 3202 at $1.65; one set Twist Drill Bits No. 109A at 90¢; and one Wheelbarrow No. 1720 at $2.85.

Where should this entry be made? Why? What account should be credited? Why?

G. A. Kennedy reports two Cross Cut Saws No. 080, on invoice of the 22d, unsatisfactory. Give him credit for them.

Receive the acceptance of our draft on C. G. Lynch & Co., for invoice of the 22d. The acceptance is dated October 24.

H. Decker, City, orders:

6 doz. Very Best Chisels No. 2072
5 doz. Stanley Gauges No. 705
18 Cross Cut Saws No. 080
12 Platform Scales No. M108

Terms: 2/5, 1/10, n/30.

C. L. Norris & Co., Altoona, Pa., remit a check for $150, on account, and order: (Incoming Check)

12 doz. Pocket Knives No. 1321
2 doz. Stanley Levels No. 155

Terms: n/30.

J. H. Harlan, South Bend, Ind., orders:

15 doz. Adjustable Clamps No. R225
50 doz. Brass Padlocks No. 882
5 doz. Thermometers No. 1452

Terms: 2/10, n/30.

Deposit the two checks on hand. $\frac{1}{10}\%$ collection on the checks. Prove cash, make a report, and post.

October 27. D. L. Jackson & Co. have returned four Garden Plows No. 426 as unsatisfactory. Allow them credit for them.

Receive a check of J. H. Harlan, for invoice of the 17th, less discount. (Incoming Check)

The Student should now be familiar enough with the work of this set so that less information about transactions need be given. Hereafter when cash is received or paid for an invoice, nothing will be said about whether there is discount to be allowed or not nor whether there has been an allowance made for rebates or for returned goods. The Student must depend on his entries and on his ledger accounts to give him the necessary information.

Several days ago the C. L. Ross Stove Co., Detroit, Mich., asked us to sell 50 stoves on commission. The firm agreed to do it. They have been received. By agreement, they are to be sold for $17.50 and the firm is to receive 8% commission. Make the usual memorandum.

Pay the freight on the consignment of stoves by check in favor of the Michigan Central R. R., $38.75.

J. A. Rogers & Co. have asked permission to prepay their note for $150. We have agreed to allow them discount at 6%.

Receive a N. Y. draft in payment of the proceeds of this note. (Incoming N. Y. Draft)

M. E. Clinton & Co., Ft. Wayne, Ind., order:

3 doz. Steel Axes No. 40
5 doz. Very Best Hammers No. 212
6 doz. O. V. B. Hatchets No. 420

Terms: 2/10, n/30.

They have asked us to ship the goods to D. L. Hahn, Bluffton, Ind., and to prepay the freight and charge it to them.

Prepay the freight by check to the Pennsylvania R. R. Co., $7.65.

In charging this to M. E. Clinton & Co. on the Cash Payments, the entry must be made in the General column, as there is no column for Accounts Receivable on the Cash Payments. It must also be

posted to the debit of Accounts Receivable in the general ledger. Write Accounts Receivable in parenthesis after M. E. Clinton & Co. to show this.

P. A. Perry, Omaha, Neb., orders:

15 Counter Scales No. 507
8 Platform Scales No. M108

Terms: n/30.

Deposit the check and N. Y. Draft on hand. $\frac{1}{10}\%$ collection on the check.

Prove cash, make a report, and post.

October 28. The bank reports the sight draft on L. E. Widule, for invoice of the 23d collected. Collection charge, $\frac{1}{8}\%$.

Receive of J. A. Dressler & Co. a check for $150, on account. (Incoming Check)

As he is entitled to 2% discount, he must be given credit for more than the amount remitted.

Divide the amount received by .98 to find the amount of the credit to him. Prove the result by taking 2% of the amount to be credited and subtracting it. The difference should equal the amount of the check, $150.

After the amount to be credited has been found, make the entry in the usual way.

C. A. King has paid out $5.50 for subscriptions to trade journals. Give him a check to reimburse him.

Pay the gas bill by check in favor of the People's Gas Co., $4.75.

D. J. Field & Co., Grand Rapids, Mich., order:

5 doz. Dexter Hand Saws No. 605
4 doz. Straight Shears No. 1044

Terms: 2/10, n/30.

Deposit the check on hand. $\frac{1}{10}\%$ collection.

Prove cash, make a report, and post.

October 29. Buy an invoice of tools of the Cleveland Tool Co., Cleveland, Ohio, amounting to $1016.50. Terms: 30-day draft for $500; balance, on account.

The draft, dated October 27, has been accepted and returned to them.

The Ohio Tool Co. has offered us an extra discount if we pay their account in full. They have agreed to allow us discount of 3% instead of 2%, for anticipating payment. Write the check on this basis.

Post these transactions.

October 30. Receive a check of J. A. Green & Co., for invoice of the 20th. (Incoming Check)

They have included the collection charge, 42¢, in the check.

Credit Collection and Exchange for the 42¢.

Receive a check of C. L. St. John for invoice of the 20th. (Incoming Check)

J. B. Mauer & Co., Sioux City, Iowa, order:

20 Ross Stoves at $17.50

15 Steel Wheelbarrows No. 1720

Terms: 2/10, n/30 on the wheelbarrows; n/30 on the stoves.

Make two entries for this transaction as the stoves are sold from the consignment and must not be entered on the sales blank. The debit in the journal must be posted twice. Why?

J. A. Dressler & Co., Peoria, Ill., order:

30 Stanley Jack Planes No. 370

4 doz. Jersey Vises No. 114

3 doz. Coe Wrenches No. 640

Terms: 2/10, n/30, f. o. b., Peoria, Ill.

Prepay the freight on this shipment by check in favor of the Chicago & Alton R. R. Co., $8.20.

J. A. Rogers & Co., Appleton, Wis., order:

20 Ross Stoves at $17.50

Terms: cash, $200; balance, on account.

Where should this sale be entered? Why?

Receive their check for $200. (Incoming Check)

D. L. Jackson & Co., Memphis, Tenn., order:

10 Ross Stoves at $17.50

25 Garden Plows No. 426

Terms: n/30.

Deposit the three checks. $\frac{1}{10}\%$ collection.

Prove cash, make a report, and post.

October 31. Render account sales to the C. L. Ross Stove Co. for the stoves sold. Charge commission at 8%. Remit the net proceeds by check.

Pay the salaries to the Student and to James Roach, each for one-half a month. Charge the student's salary to the Salaries account.

Charles Sanborn reports his expenses for the week, $32.65. Give him credit for the amount.

Give Charles Sanborn a check for one-half a month's salary.

Credit each partner for one-half a month's salary according to the articles of copartnership. Do not enter this in the cash book.

Prove cash, make a report, and post.

CLOSING WORK

1. Find the total of the Amount column of the purchase book and make the closing entry. Rule, and post the entry.

2. Take a sales recapitulation sheet from your supplies. List the sales by date, order number, and amount. Find the total amount and make the closing entry. Post the entry.

3. Find the total of each amount column of the cash book. Prove the sum of the first two columns of the Cash Receipts with the last two columns. Prove the sum of the first three columns of the Cash Payments with the last two columns. Make the closing entries for the different columns of the cash book and post them. Balance the cash book.

4. Find the total of each column of the journal and prove the sum of the two debit columns with the sum of the two credit columns. Close the journal and post it.

5. Close the Returns and Allowances on Sales book. Post the closing entry.

6. Close the Returns and Allowances on Purchases book. Post the closing entry.

7. Make a proof of the sales ledger.

8. Make a proof of the purchase ledger.

9. Take a trial balance of the general ledger.

Set VII, October will be completed in chapter XXVIII.

CHAPTER XXVIII

ADJUSTMENT ENTRIES

Adjustment Entries are of three kinds: those made to adjust some error in the entries for the daily transactions or in closing the books, those made necessary by some unusual happening, such as a fire or an embezzlement, and those made necessary because of some partnership agreement.

Errors in Entering the Daily Transactions are of different kinds. To correct any error, the explanation should be very clear and definite both in the book of entry and in the ledger. The following examples will illustrate some of the most important errors and the method of adjusting them.

1. **A Charge to the Wrong Account.** Suppose the bookkeeper has by mistake charged D. L. Smith with $375 in the sales book and posted it to the ledger. He afterwards discovers that the charge should have been to D. L. Simmons' account. The entry to adjust should be made in the journal, as follows:

	GENERAL	ACCTS. REC.
D. L. Simmons (Accounts Receivable)	$375	
To D. L. Smith		$375
To correct the charge made on the 10th in the sales book.		

Since there is no debit column in the journal for Accounts Receivable, it is necessary to put the debit to D. L. Simmons' account in the General column and to post the amount to the debit of his account in the sales ledger and also to the debit of Accounts Receivable in the general ledger.

The ledger account of D. L. Simmons should show that this is to correct a charge that should have been made on the 10th. The ledger account of D. L. Smith should show that this entry is to correct an error, so that when a statement of account is sent to him, the items of $375 on each side will not be entered on it.

In these journal entries, all amounts will be placed to the right to show the debit and credit effect better.

2. **Sight Draft Dishonored.** A sight draft may have been drawn

on May 3, on C. D. Comstock, in favor of D. J. Lawler, and the following entry made:

	ACCTS. PAY.	ACCTS. REC.
D. J. Lawler	$200	
To C. D. Comstock		$200

When the draft is presented for payment, C. D. Comstock refuses to pay it, and D. J. Lawler, the payee, returns it to the drawer. The drawer must then make an entry to adjust, as follows:

	GENERAL	GENERAL
C. D. Comstock (Accounts Receivable)	$200	
To D. J. Lawler (Accounts Payable)		$200
To adjust entry of May 3, because draft was dishonored.		

3. Cash Shortage or Cash Over. It may be necessary to make a temporary entry to account for a shortage of cash or for an amount *over*. To adjust this, a Cash Difference account, a Suspense account, or an Adjustment account may be used. In the illustrative entries to follow the Cash Difference account will be used.

Cash Difference Account. If the cash is short $10, and it cannot be found, the following entry may be made on the Cash Payments:

Jan. 10 Cash Difference Shortage $10

When the mistake is found, a counterbalancing entry is made on the Cash Receipts:

Jan. 15 Cash Difference Shortage on the 10th $10

The entry is then made as it would have been made on the day the shortage was discovered. Suppose it was a withdrawal of a partner, the entry on the Cash Payments would be as follows:

Jan. 15 Partner, Personal Withdrawal on the 10th $10

Suppose there was "cash over," that is, the balance in the cash book was less than the actual cash on hand. The entry on the Cash Receipts would be as follows:

Jan. 8 Cash Difference Cash over $15

When the mistake is found, Cash Difference is debited on the Cash Payments. The correct entry is then made on the Receipts side, such as, a credit to Interest, if interest on a notes receivable was omitted; a credit to a customer's account, if the receipt of money from a customer was not recorded.

The debits and credits to Cash Difference may be entered in red ink on the cash book.

The Cash Difference account, on closing the books, should be treated as a profit or a loss depending upon which side is the larger unless the items are of recent date and there is a possibility that they may be found. These items may be treated as an asset if the debit side is the larger and as a liability if the credit side is the larger.

4. **Books Out of Balance.** Sometimes, on taking charge of a set of books, it is found that they are out of balance, and that the amount cannot be found. It is often necessary to put the books in balance while looking for the mistake. The Adjustment account is usually used for this adjustment. If $50 is needed on the debit side to make the trial balance equal, the Adjustment account should be debited in the journal. This is not an entry, as there is no credit for it. A charge or credit for a failure to get a trial balance should never be made except upon the advice and consent of the proprietors of the business, and under the conditions named. An error in a trial balance that occurs after a bookkeeper is regularly employed should not be adjusted in this way. *The mistake should be found.*

The Adjustment account, when the books are closed, may be treated as an asset or as a loss, if a debit, and as a liability or a profit, if a credit. If the amount is not large, it is usually best to transfer it to the Profit and Loss account, on closing the books.

5. **Failure of a Customer.** An adjustment entry may become necessary if a customer fails and can pay only part of his account. If he has taken the necessary legal steps and is discharged from bankruptcy, he is released from the balance. The entry must be made so as to show this.

Suppose that C. L. Kohn owes the business $235 on account. He fails and can pay only 60¢ on the dollar. The entries must be made so as to show the account closed. On the Cash Receipts, the entry would be:

	ACCTS. REC.
Jan. 20 C. L. Kohn 60¢ on the dollar	$141

In the journal, the following entry would be made:

	GENERAL	ACCTS. REC.
Reserve for Bad Debts	$94	
To C. L. Kohn		$94
Loss of 40¢ on the dollar due to bankruptcy.		

If no Reserve for Bad Debts has been set up on the books, the debit would be to the Bad Debts account. The Bad Debts account is, of course, a loss and should be charged to the Profit and Loss account when closing the books.

6. **To Adjust Mistakes in Closing the Books.** Mistakes of this kind may be due to errors in computing inventories, errors in principle, such as considering an account or item an asset instead of a loss, or errors of omission. The supposition is that the mistakes are discovered *after* the books have been closed.

Examples:

a). Suppose an error of $1000 was made in computing the inventory, the correct amount being $1000 less than the one used. The following entries should be made to adjust the error:

Profit and Loss	$1000	
To Purchases		$1000
To adjust error in computing the inventory.		

Then:

Partner, Capital	$500	
" "	500	
To Profit and Loss		$1000

If the inventory had been computed $1000 short, the entries would be reversed. In a corporation, the Surplus account would be debited instead of the partners' capital accounts.

b) Suppose a charge of $150 for painting a building has been debited to Real Estate instead of to its nominal account. This is an error of principle. To adjust it make the following entry:

Real Estate Expense and Income	$150	
To Real Estate		$150
To adjust a wrong charge for painting a building.		

Then:

Profit and Loss	$150	
To Real Estate Expense and Income		$150

Then:

Partner, Capital	$75	
" "	75	
To Profit and Loss		$150

c) Suppose that there is an inventory of unused advertising that has not been entered. The following entry should be made:

Advertising	$300	
To Profit and Loss		$300
Inventory omitted.		

Then:

Profit and Loss	$300	
To Partner, Capital		$150
" "		150

d) A liability inventory, such as for labor may have been omitted. The entries to adjust would be as follows:

Profit and Loss	$250	
To Labor (or Expense)		$250
Inventory omitted.		

Then:

Partner, Capital	$125	
" "	125	
To Profit and Loss		$250

Whenever adjustments are made that affect any results in the statements of Assets and Liabilities or in the Trading and Profit and Loss statements, a correction should be made below the statements and the correct results shown.

7. **Fire Loss.** When a fire occurs it is best to open up a special account instead of charging the loss to Profit and Loss. When the adjustment is made with the insurance company, and the cash is received, entries should be made on the Cash Receipts crediting the accounts that represent the assets destroyed.

Suppose that a building valued on the books at $10,000, goods valued at $3500, and office furniture and fixtures valued at $475 were destroyed. The insurance company paid $8000 on the building, $2750 on the goods, and $360 on the furniture and fixtures.

The entry on the Cash Receipts for the cash received would be as follows:

Oct.	8	Real Estate	Insurance adjustment	$8000	
	8	Purchases	" "	2750	
	8	Fur. & Fix.	" "	360	

The loss on these assets should be charged to Fire Loss by a compound journal entry, as follows:

Fire Loss	$2865	
To Real Estate		$2000
Purchases		750
Fur. and Fix.		115
Loss due to fire Sept. 20, 19—		

The unexpired insurance still on the books, in the case of a total loss, should be charged to Fire Loss. If only a partial loss occurs, a proportionate amount should be charged off, as:

Fire Loss	$35	
To Insurance		$35
Unexpired premium lost on account of fire, Sep. 20, 19—		

The Fire Loss account represents an unusual loss and is best closed into the partners' accounts by a charge to these accounts in the proportion in which they share the losses and a credit to Fire Loss. This should be done at once and should not be left till statements are made. In a corporation, it should be closed into Surplus.

8. **Interest on Partners' Capital and Withdrawals.** Articles of co-partnership frequently provide for interest on partners' capital and may provide for interest on their withdrawals. This is done when the capitals are unequal and the partners share gains and losses equally or in some other proportion than the ratio of each one's capital to the total capital.

If A invests $15000 in a partnership and B, $10000, and they share gains and losses equally, it would be fair to credit each one with interest on his investment at an agreed rate. But if they invest as before and A is to receive $\frac{15}{25}$ or $\frac{3}{5}$ of the profits and B, $\frac{10}{25}$ or $\frac{2}{5}$, no adjustment of interest is necessary. It is, therefore, only necessary when the profit-sharing ratio is different from the capital ratio.

The articles of copartnership must definitely state that interest is to be credited on investments and charged on withdrawals in order to permit the bookkeeper to make the adjustments.

To Compute Interest on Partners' Accounts:

1. Find the interest on each credit entry in the capital and personal accounts from the date of the entry to the date of adjustment.

2. Find the interest on each debit entry in the capital and personal accounts in the same way.

3. Find the difference between the credit and debit interest for each partner. This difference represents the amount due each partner.

4. To adjust, make an entry debiting Profit and Loss and crediting the partners' personal accounts. This should be done *after* the nominal accounts have been closed into Profit and Loss and the net profit has been found. Each partner, then, receives part of his profits as interest. This entry is really a distribution of part of the profits and not a loss such as the payment of interest on a loan to a partner or to someone outside the business.

Example:

To adjust interest at 6%, on May 31, for the following accounts:

L. A. Stevens, Capital

		May 1	$10000
		15	2000

L. A. Stevens, Personal

May 10	$50	May 15	$100
20	50	31	100

D. J. Frazer, Capital

		May 1	$7000
		15	2000

D. J. Frazer, Personal

May 10	$50	May 15	$75
20	60	31	75

The credits to the capital and to the personal accounts are combined in the solution of the problem and also the debits to the capital and to the personal accounts.

L. A. Stevens, Credit Interest

May 1	Interest on	$10000	for	30	da.	$50.00	
15	" "	2000	"	16	"	5.33	
15	" "	100	"	16	"	.27	
31	" "	100	"	0	"	.00	
Total credit interest							$55.60

L. A. Stevens, Debit Interest

May 10	Interest on	$50	for	21	da.	$ .18	
20	" "	50	"	11	"	.09	
Total debit interest							.27
Net interest due him							$55.33

D. J. Frazer, Credit Interest

May 1	Interest on	$7000	for	30	da.	$35.00	
15	" "	2000	"	16	"	5.33	
15	" "	75	"	16	"	.20	
31	" "	75	"	0	"	.00	
Total credit interest							$40.53

D. J. Frazer, Debit Interest

May 10	Interest on	$50	for	21	da.	$ .18	
20	" "	60	"	11	"	.11	
Total debit interest							.29
Net interest due him							$40.24

The following entry would then be made:

Profit and Loss	$95.57	
To L. A. Stevens, Personal		$55.33
D. J. Frazer, Personal		40.24
To adjust interest at 6%.		

If the net profits were $780.45 before the adjustment was made and profits and losses were to be divided equally, the Profit and Loss account would first be closed by *Net Profit* and it would be brought down on the credit side of the same account. The entry for the adjustment of interest would then be posted to the debit side of the Profit and Loss account. There would then be $684.88 to be divided equally. Each partner would receive his interest share plus $342.44. Stevens' total share of the profits would be $397.77 and Frazer's, $382.68.

If the profits had been divided equally without an interest adjustment, one partner would have received $390.23 and the other $390.22.

Exercise 53. On June 8, there was a cash shortage of $40. On June 12, it was found that the proprietor had withdrawn $40 and made no record of it. Make the necessary entries for both dates.

Exercise 54. On June 15, there was cash "over" amounting to $37.85. On June 18, it was found that cash received from C. D. Walters was entered as $375.50 instead of $395.50. Also a cash sale to J. A. Wood for $17.85 was not entered at all. Make the necessary entries for both dates.

Exercise 55. M. I. Kerr owes you $324.75. He has been declared a bankrupt and his receiver sends you a check for 60¢ on the dollar. Make the necessary entries.

Exercise 56. March 8. You drew a draft on P. L. Worden in favor of M. A. Kane, for $200, and sent it to M. A. Kane to apply on account. It is now returned to you dishonored. Make the necessary entry now if an entry was made when the draft was drawn.

Exercise 57. a) After closing the books, it was found that the merchandise inventory had been computed $100 less than it should have been. b) After closing the books, it was found that there was unexpired insurance that had not been entered, amounting to $50.

Make the entries to adjust these mistakes.

Exercise 58. A fire occurred in the building occupied by the Chase Mfg. Co. Merchandise worth $7845.60 was partly destroyed, the furniture and fixtures were damaged to the amount of $186.50, and the building was damaged to the amount of $4500. Merchandise that was salable was sold for $243.75. The following was received from the insurance companies: for merchandise, $6875.80; for furniture and fixtures, $156.75; and for the loss to the building, $4500. There was unexpired insurance on the books of $167.80, all of which, except $23.50, is a loss.

Make the entries to adjust this.

Exercise 59. C. Jones, D. Kreeger, and G. Hinton formed a copartnership on June 1, with investments as follows: C. Jones, $10000; D. Kreeger, $7500; and G. Hinton, $6000. It is agreed that the partners shall share profits and losses equally, and that 6% interest is to be allowed on all investments and on all withdrawals of capital. On July 15, G. Hinton invested $2000 additional. On August 20, C. Jones withdrew $3000 and on October 10, D. Kreeger withdrew $500.

Adjust interest at 6% on December 31. Use exact days in computing the time. Make the entry to adjust the interest.

Exercise 60. In the partnership of Dillon & Foster, the partners share profits and losses equally and interest is to be adjusted December 31 at 6%. The capital accounts show the following: J. Dillon invested $5000 on January 1 and $2000 on May 15. He withdrew $1000 on July 10 and $500 on September 15. F. E. Foster invested $4000 on January

1 and $2500 on March 8. He withdrew $500 on July 10 and $1200 on October 20.

Adjust the interest on December 31. Use exact days in computing the time. Make the entry to adjust the interest.

CLOSING WORK, SET VII, OCTOBER (Concluded)

Trading and Profit & Loss Statements for the month ending Oct. 31, 19—

		Returns				
		Gross Sales		9875	60	
		Less Returns and Allowances		112	40	
		Net Sales				9763	20
		Costs				
		Inventory, Oct. 1, 19—		6136	40	
		Purchases	$9243.60			
		Less Returns and Allowances	102.25			
		Net Purchases		9141	35	
				15277	75	
		Less Inventory, Oct. 31, 19—		6942	60	
		Prime Cost of Goods Sold		8335	15	
		Freight In		117	80	
		Total Cost of Goods Sold				8452	95
		Gross Trading Profit Down				1310	25
		Profits				
		Gross Trading Profit Brought Down		1310	25	
		Purchases Discount		142	80	
		Commission		37	50	
		Total Profit				1490	55
		Losses				
		Selling Expenses:				
		Delivery Expense		75	40	
		Advertising Dr.	$212.50			
		Less Unexpired	172.00	40	50	
		Traveling Expenses Dr.	$68.90			
		Not Entered	25.00	93	90	
		Salary, Traveling Salesman		125	—	
		Freight Out		23	80	
		General Expenses:				
		Expense Dr.	$85.40			
		Less Inventory	9.65	75	75	
		Rent		60	—	
		Salaries		150	—	

Collection and Exchange			6	55		
Interest Dr.	$36.80					
Interest, accrued on notes pay.	3.60					
	$40.40					
Interest, accrued on notes rec.	2.15		38	25		
Insurance Dr.	$120.00					
Insurance, unexpired	110.00		10	—		
Sales Discount			68	45		
Depreciation:						
Of Real Estate			97	50		
Of Delivery Equipment			12	—		
Of Furniture and Fixtures			3	50		
Total Losses					880	60
Firm's Net Profit					609	95
Distribution:						
J. Bond's Net Interest			59	87		
J. Bond's Net Profit			252	59		
J. Bond's Total					312	46
C. Lynn's Net Interest			44	91		
C. Lynn's Net Profit			252	58		
C. Lynn's Total					297	49
					609	95

Statement of Assets and Liabilities, Oct. 31, 19—

Assets					
Real Estate Cost	$9750.00				
Less Depreciation	97.50	9652	50		
Furniture and Fixtures Cost	$350.00				
Less Depreciation	3.50	346	50		
Delivery Equipment Cost	$1200.00				
Less Depreciation	12.00	1188	—		
Stocks and Bonds Cost		2375	80		
Merchandise Inventory		6942	60		
Notes Receivable		986	40		
Accounts Receivable, per sales ledger		5586	45		
Insurance, unexpired		110	—		
Advertising, unexpired		172	—		
Expense Inventory		9	65		
Interest, accrued on notes receivable		2	15		
Cash		1086	40		
Total Assets				28458	45

	Liabilities				
	Notes Payable	1000	—		
	Accounts Payable	5994	90		
	Traveling Expenses, Accrued	25	—		
	Interest, accrued on notes payable	3	60		
	Total Liabilities			7023	50
	Firm's Net Worth			21434	95
	Proof				
	J. Bond's Investment	12000	—		
	J. Bond's Interest and Net Profit	312	46		
		12312	46		
	Less J. Bond's Personal	100	—		
	J. Bond's Net Worth			12212	46
	C. Lynn's Investment	9000	—		
	C. Lynn's Interest and Net Profit	297	49		
		9297	49		
	Less C. Lynn's Personal	75	—		
	C. Lynn's Net Worth			9222	49
	Firm's Net Worth			21434	95

10. Make Trading and Profit and Loss statements. Use the following inventories and other information not found in the books:

Merchandise Inventory	$6812.45
Stocks and Bonds, at cost	
Coal and Stationery, on hand	11.75
Delivery Supplies, on hand	4.20
Unexpired Advertising	85.00
Unexpired Insurance, $\frac{23}{24}$ of the cost	
Interest, accrued on B. C. Deering's note	.66
Depreciation:	
On Furniture and Fixtures	$\frac{1}{2}\%$
On Delivery Equipment	2%
On Warehouse Equipment	1%

11. Make a statement of Assets and Liabilities.

12. After these statements have been approved by your teacher, copy them in your blanks. Leave spaces for distribution and proof.

13. Close the accounts of the general ledger, except the Capital and Personal accounts of the partners. In closing the Profit and Loss account, write the words *Net Profit* in red ink and bring the amount below the line in black ink. This is necessary because part of the profit must first be distributed as interest before it can be divided equally.

14. Adjust interest between partners. To do this, use both the capital and the personal accounts of the partners. Find the amount due each partner according to the method given in this Chapter. Make the necessary entry to transfer the amount due each partner to his personal account.

15. a) Close the Profit and Loss account in the usual way after you have posted the entry to it for the adjustment of interest.

b) Close each partner's personal account into his capital account.

c) Close each partner's capital account.

16. Make a proof trial balance.

17. Submit all of your books to your teacher for correction.

Exercise 61. From the following trial balance and inventories, make Trading and Profit and Loss statements and statement of Assets and Liabilities for the month ending June 30, 19—. The partners share gains and losses equally.

Trial Balance, June 30, 19—

C. N. Decker, Capital		$12000.00
E. P. Randolph, Capital		12000.00
C. N. Decker, Personal	$ 47.90	
E. P. Randolph, Personal	53.75	
Real Estate	15000.00	
Furniture and Fixtures	265.00	
Delivery Equipment	1250.00	
Notes Receivable	1200.00	
Accounts Receivable	9431.75	
Notes Payable		7950.00
Accounts Payable		8972.50
Purchases	13786.40	
Sales		10242.85
Freight In	217.25	
Freight Out	56.80	
Sales Discount	112.40	
Purchases Discount		137.85
Advertising	215.00	
Delivery Expense	170.00	
Rent	125.00	
General Expense	56.25	
Salaries	220.00	
Insurance	115.20	
Commission		35.00
Cash	9015.50	
	$51338.20	$51338.20

Inventories and other Information:

Merchandise Inventory		$ 6572.95
Expense, supplies on hand		9.35
Advertising, unexpired		45.00
Delivery Supplies, on hand		8.25
Interest, accrued on Notes Receivable		1.35
Insurance, $\frac{11}{12}$ of the cost		
Depreciation:		
Real Estate	$\frac{1}{2}\%$	
Delivery Equipment	1%	
Furniture and Fixtures	1%	

REVIEW QUESTIONS

1. What are the advantages of the use of three ledgers?
2. What kinds of accounts does each of the three ledgers include?
3. a) What is a controlling account? b) Give the meaning of each controlling account you have used.
4. Explain the posting of the purchase book both daily and monthly.
5. Name the columns of the cash book in order and give the daily and monthly posting.
6. Name the columns of the journal in order and give the daily and monthly posting.
7. How do you prove the sales ledger?
8. How do you prove the purchase ledger?
9. Give the reasons for the use of the different special columns in the cash book.
10. Give the reasons for the use of the special columns in the journal.
11. Explain the use of the sales journal.
12. Explain the duplicate charge system of handling sales.
13. What is the object of the sales recapitulation sheet?
14. What are the features of a retail bill and charge system?
15. What are the advantages of loose-leaf ledgers?
16. What should be observed in opening up accounts in a loose-leaf ledger?
17. What are the advantages and disadvantages of card ledgers?
18. What kinds of businesses can use card ledgers to the greatest advantage?
19. Explain the center-column ledger, the balance column ledger, and the self-proving ledger.
20. What are the most common kinds of adjustment entries?
21. How would you correct an error in debiting or crediting the wrong account?
22. How do you adjust "cash over" and "cash shortage?"
23. What principles should be observed in adjusting errors made in closing the books?
24. What entries should be made when a customer becomes bankrupt and pays a certain per cent of his indebtedness?
25. Explain the principle of the adjusting of interest between partners and the entry to record it.

CHAPTER XXIX

WHOLESALE HARDWARE

SET VII

TRANSACTIONS FOR NOVEMBER 1-7

Continue the use of the books in the same way as for October. Do not forget to bring the cash balance forward in both the general and Cash Dr. columns. Use a new page for the cash book.

November 2. Receive a N. Y. draft of G. A. Evers & Co. for invoice of October 23. (Incoming N. Y. Draft)

The firm has informed all customers that remittance must be by bank draft or the cost of collection on local checks must be added to the check. For that reason, N. Y. drafts will be received more frequently.

Buy an invoice of hardware of C. Merton & Co., New York, amounting to $632.45. Terms: 2/5, 1/10, n/30.

Pay the rent for the month of November.

Buy five tons coal of the Pennsylvania Coal Co. at $5.10. Pay it by check.

Pay a bill of the Carter Advertising Co. for printing trade circulars, $14.50.

Pay C. Inbusch $2.50 for addressing and mailing trade circulars.

Pay $6.00 for stamps for mailing trade circulars.

G. A. Kennedy, St. Louis, Mo., sends a N. Y. draft for invoice of October 22. Since the draft is dated October 21. the discount is allowed. (Incoming N. Y. Draft) He orders:

5 doz. Pocket Knives No. 1321
6 doz. Screw Drivers No. 302
8 doz. Jersey Vises No. 114

Terms: 2/10, n/30.

C. L. St. John, Sedalia, Mo., orders:

6 doz. Steel Axes No. 40
4 doz. Adjustable Clamps No. R225
10 doz. Very Best Hammers No. 212
5 doz. Tinners' Mallets No. 2120

Terms: note for 30 days, with interest at 6%, for $150; balance, on account.

The note is received with the order.

Deposit the N. Y. drafts on hand.

Prove cash, make a report, and post.

November 3. Receive of C. G. Lynch & Co., a N. Y. draft for the acceptance of October 24. (Incoming N. Y. Draft)

Pay Simmons Hardware Co. $1200, on account.

Receive a N. Y. draft from J. A. Rogers & Co., to balance their account for October. (Incoming N. Y. Draft)

Receive a N. Y. draft of H. A. Vinton, on account, $150. (Incoming N. Y. Draft)

Receive a N. Y. draft of P. A. Perry, for invoice of October 24. (Incoming N. Y. Draft)

H. I. Wheeler, Lima, Ohio, has failed and can pay only 70¢ on the dollar. Receive a N. Y. draft from his receiver for the amount. Make two entries for this transaction.

Buy an invoice of saws of the Dexter Saw Co., Hartford, Conn., amounting to $537.20. Terms: 2/10, n/30.

H. Decker, City, orders:

30 Stanley Jack Planes No. 370
15 doz. Boxwood Rules No. 172
10 doz. Straight Shears No. 1044
15 Steel Wheelbarrows No. 1720

Terms: 2/10, n/30.

J. H. Harlan, South Bend, Ind., orders:

4 doz. Bit Braces No. 3202
48 sets Twist Drill Bits No. 109A
5 doz. New American Files No. 878
8 doz. Tinners' Mallets No. 2120

Terms: 2/10, n/30.

D. J. Silber, Keokuk, Iowa, orders:

6 doz. Spring Punches No. 440
12 doz. Dexter Hand Saws No. 605
8 Platform Scales No. M108

Terms: 2/10, n/30.

Deposit the N. Y. drafts on hand.

Prove cash, make a report, and post.

November 4. The partners have decided to sell the stocks and bonds on hand and purchase a building and lot. The bonds are sold at $96\frac{1}{2}$ and accrued interest after November 1. Brokerage is charged for selling, $\frac{1}{8}\%$.

Find the selling price of the bonds, net, by multiplying the par value of the bonds by the net amount received for each dollar of the

bond, .96⅜. Find the accrued interest on the par value of the bonds at 4%.

Receive a check from D. E. Darrow & Co. for the amount. Make two entries, one for the cost, and the other for the profit on the bonds including the interest accrued. (Incoming Check)

Open an account for Stocks and Bonds Expense and Income.

The stock is sold at 108¼, brokerage ⅛%.

Receive a check from C. Mitchell & Co. for the selling price. (Incoming Check)

Make two entries for this transaction also.

Pay freight on incoming invoices by check in favor of the Darr Transfer Co., $36.55.

Buy motor supplies of the City Supply Co. by check, $8.95.

P. A. Perry, Omaha, Neb., orders:

24 doz. Eagle Compasses No. 569
15 doz. Stanley Gauges No. 705
8 doz. O. V. B. Hatchets No. 420
6 doz. Try Squares No. 712

Terms: n/30.

H. A. Vinton, Kenosha, Wis., orders:

18 Counter Scales No. 507
25 Step-ladders No. 670
5 doz. Coe Wrenches No. 640

Terms: n/30.

J. B. Mauer & Co., Sioux City, Iowa, order:

8 doz. Very Best Chisels No. 2072
12 doz. Very Best Hammers No. 212
6 doz. Stanley Levels No. 155

Terms: 2/10, n/30.

Deposit the two checks on hand.

Prove cash, make a report, and post.

November 5. Receive a N. Y. draft of C. L. Norris & Co. for the balance of their account for October. (Incoming N. Y. Draft)

Receive a N. Y. draft of J. H. Harlan for invoice of October 26. (Incoming N. Y. Draft)

Pay Cleveland Tool Co. $500 on account, and buy an invoice of tools from them amounting to $516.85. Terms: n/30.

Pay the freight on the invoice of tools by check in favor of the Nickel Plate R. R., $15.85.

Pay the Dexter Saw Co. for the invoice of October 21.

D. J. Field & Co., Grand Rapids, Mich., order:

6 doz. Bit Braces No. 3202
72 sets Twist Drill Bits No. 109A

Terms: 2/10, n/30.

D. L. Jackson & Co., Memphis, Tenn., order:

12 doz. Pocket Knives No. 1321
15 Garden Plows No. 426
16 Cross Cut Saws No. 080

Terms: note, at 30 days, for $200, with interest at 6%; balance, on account, 30 da.

The note is received with the order.

The firm has bought the building and lot located at 250 N. Canal St., of D. A. Paxton & Co., for $14750; $10000 being the value of the building and $4750, of the lot.

By agreement, $8000 is to be paid in cash and a note for one year with interest at 6% given for the balance.

Make an entry to record the *purchase.* Then make two entries to record the two payments.

Deposit the two N. Y. drafts on hand.

Prove cash, make a report, and post.

November 6. The firm has contracted with the J. A. Manville Co. to take over the lease to the building the firm is now occupying. The transfer is to be made November 9. They have given us a check for $85 to reimburse us in part for the rent paid to December 1.

November 7. The firm has received an offer from the Houston Hardware Co. to buy the firm's business. They agree to purchase the assets, cash excepted, and to assume the liabilities of the business as shown by a statement of assets and liabilities under date of November 7. They have agreed, in addition, to pay $750 for the good will of the business.

Their proposition has been accepted, with payment to be made as follows: Cash, $10000, and a note at three months, with interest at 6% for the balance.

As bookkeeper, you are required to close the books, November 7.

CLOSING WORK

1. Close the books of entry in the same way as for October and post the closing entries.
2. Make a proof of the sales ledger.
3. Make a proof of the purchase ledger.
4. Take a trial balance of the general ledger.
5. Make Trading and Profit and Loss statements. Use the following inventories and other information not found on the books:

Merchandise Inventory	$6519.40
Real Estate, at cost	
Unexpired Advertising	65.00
Unexpired Insurance, $\frac{15}{16}$ of the cost	
Coal on hand	26.75
Delivery Equipment Supplies	9.25

Interest accrued on notes receivable and on notes payable
Depreciation:
On Furniture and Fixtures, $\frac{1}{5}\%$ of the cost
On Delivery Equipment, 1% of the cost
On Warehouse Equipment, $\frac{1}{3}\%$ of the cost

There is a liability of $35 for traveling expenses, and of the traveling salesman's salary for one-fourth of a month.

There is also a liability for the salaries of the bookkeeper, the deliveryman, and of the partners, each for one-fourth of a month.

6. Make a statement of Assets and Liabilities.

7. Copy the statements in the blanks after they have been approved by the teacher. Leave spaces for distribution and proof.

8. Close the accounts of the general ledger, except the Capital and Personal accounts of the partners.

The Profit and Loss account should be closed by *Net Profit* placed in red ink on the debit side of the account and brought below the line on the credit side of the account in black ink.

9. Adjust interest between partners and make the necessary entry.

10. a) Close the Profit and Loss account in the usual way after you have posted the entry to it for the adjustment of interest.

b) Close the partners' personal accounts into their capital accounts.

c) Close the partners' capital accounts.

11. Make a proof trial balance after closing the ledger.

To Transfer a Business to a Purchaser. To transfer a business, certain legal steps are necessary to make the transfer valid and certain entries are necessary to show the transfer and to close the books.

To Transfer This Business. First, A *contract of sale* or a *bill of sale* should be drawn up, showing the assets transferred to the new business, the liabilities assumed by the new business, and the terms of the agreement. It should definitely name the contracting parties, the terms of payment, the consideration, and any other agreements entered into.

Second, The real estate can be transferred only by deed, which should be made out and signed and acknowledged by the partners before a notary public.

Third, All notes receivable transferred to the new firm should be indorsed by the partnership to the new business.

The Entries Necessary include the entry to show the sale of the business, to show the distribution of the Good Will, the entry to show the payment for the purchase of the business, and the entry to give each partner his share of the business.

Good Will. Good Will represents the established trade of a business. This may include the location, the standing, the business integrity, trade marks or trade names built up by the business by advertising, and the name of the business itself or the right to use "Successors to" before the

name of the old business. It frequently includes, also, a provision that the persons selling shall not engage in the same kind of business in a certain locality for a certain period of time.

Good Will, if rightly valued, is an asset and may be included in the accounts whenever an established business is sold to another business. But it must represent actual values, otherwise it is simply a means of increasing the nominal value without an increase in the assets. This is frequently called watered stock, in the case of a corporation. An entirely new business cannot have a Good Will.

Good Will is the most permanent kind of an asset as it cannot be sold without selling the business. The business may increase or decrease but that should not change the value of Good Will. It does not show a profit or a loss simply because a business has increased or decreased in value. When a business is sold, Good Will may show a profit if more is received for it than the book value and a loss if less is received for it than the book value.

Because Good Will is such an intangible asset, many firms prefer to write a certain amount off each year. If the Good Will is $5000, the business may decide to write it off in ten years. Each year the following entry would be made:

Profit and Loss	$500	
To Good Will		$500

To write off $\frac{1}{10}$ of the Good Will.

At the end of ten years, the account would be closed.

Make the following entries and close accounts as a result of the transfer of the business:

1. Since Good Will for $750 is included in the purchase of the business, an entry must be made to put it on the books. Debit Good Will for that amount and credit each partner's Capital account for one-half of that amount.

2. Debit the Houston Hardware Co. for the assets of the business, including Good Will and excluding cash, and credit each of the assets under the proper account name for the balance as shown on the ledger. The explanation should be *To transfer the assets to the Houston Hardware Co.*

3. Each liability except that to the partners should be debited and the Houston Hardware Co. credited for the sum. The explanation should be *To transfer the liabilities assumed by the Houston Hardware Co.*

4. The difference between the debits and the credits to the account of the Houston Hardware Co. is the amount to be paid for the business. Receive a check for $10000 and a note at three months, with interest at 6%, for the balance. Make an entry in the journal for both the check and the note received. Then check the cash entry and enter it in the cash book and check it.

Open an account for the Houston Hardware Co. and post the entries that have been made.

5. By agreement, E. B. Gordon has agreed to take the note at its face value in part for his net worth. Make an entry to transfer it to him.

6. Give each partner a check for the balance of his net worth. These two checks should exactly balance the cash book.

7. Rule the cash book and any accounts in the ledger that have not been ruled.

8. Submit all of your books to your teacher for correction.

ANALYSIS OF RESULTS

Per cent of Profit and of the Cost of Doing Business Based on the Selling Price.

In Part II, the method of computing the per cent of the cost of doing business and the per cent of net profit was based on the cost of the goods sold, frequently called the *turnover*. That is a method very commonly used and in certain businesses is the only one that is used to any extent.

But in many businesses the difficulty of ascertaining the total cost, and the fact that selling expenses bear a closer relation to the selling price than to the cost price, makes it advisable to compute both the per cent of cost of doing business and the per cent of profit on the selling price.

Other reasons for figuring profits and expenses on the sales are:

1. Total sales can easily be found from the books. Total cost is rarely shown.
2. In many businesses, the selling price is fixed by competition or by trade agreement and it is easier to base the profits on a fixed amount rather than on an indefinite cost.
3. Commissions for selling are always based on the selling price.
4. The ordinary expenses of the business, especially the selling expenses, depend to a large extent on the gross sales.

In order to use this method to determine the selling price or to make comparisons, the business must first ascertain the cost of doing business based on sales by comparing the selling expenses and the general expense with the gross sales.

Problem: If the gross sales amount to \$8000, the selling expenses are \$800, and the general expenses are \$200, the per cents would be found as follows:

Selling Expenses, \$800 ÷ Gross Sales, \$8000 = .10 or 10%.

General Expenses, \$200 ÷ Gross Sales, \$8000 = .025 or $2\frac{1}{2}$%.

These per cents should be worked out from time to time and comparisons made of one fiscal period with another.

How to Find the Selling Price. To find the selling price of an article on this basis, the selling price must be used as a base.

Using the per cents given above, if an article costs \$12.75, the cost of doing business is 10% for the selling expenses, and $2\frac{1}{2}$% for the general expenses, and the profit is to be 15% on the sales, the selling price would be found as follows:

Let 100% = The selling price
10% = The selling expenses
$2\frac{1}{2}$% = The general expenses
15% = The profit

100% — (10% + $2\frac{1}{2}$% + 15%) = $72\frac{1}{2}$%, the cost price of the goods.

\$12.75 ÷ .725 = \$17.59, the selling price.

As this computing would require a great deal of work, tables have been made for finding the selling price of an article when the total per cent of the cost of doing business and the per cent of profits are given.

Exercise 62. Basing the cost of doing business and the profits on the gross sales, work the following problems:

1. The monthly sales of a business were \$3750. The cost of doing business was \$525.

a) Find the per cent of cost of doing business.

b) If the business wishes to make a profit of 20%, for what price should an article that cost \$9.25 be sold?

2. If the selling expenses are 12%, the general expenses, 5%, and the business wishes to make a profit of 15%, at what price should an article that cost \$22.50 be sold?

3. The yearly sales of a business were \$38975. The selling expenses were \$4592.50 and the general expenses \$1875.40.

a) Find the per cent of selling expenses.

b) Find the per cent of the general expenses.

c) If the business wishes to make a profit of $17\frac{1}{2}$%, for what price should an article that cost \$43.75 be sold?

4. The selling price of an article is \$18.50. The cost of doing business is $12\frac{1}{2}$% and the average profits on sales is 18%, what is the first cost of the article?

CHAPTER XXX

CLOSING BY JOURNAL ENTRY

The method of closing so far used has been by the *ledger transfer* method. By this method, all inventories were entered in red ink and brought below on the opposite side in black ink. All profits and losses were entered in red ink to close and taken to the opposite side of the Profit and Loss account in black ink. The net profit was transferred to the proprietor's account by entering it in red ink on the debit side of the Profit and Loss account and transferring it to the credit side of the proprietor's account.

This method may be used in a small business if the number of nominal accounts is not large, but if the business is a large one with many nominal accounts, the journal method is a better one.

By the Journal Method, nothing that changes an account is entered in any account without first entering it in the journal as a closing entry. No red ink is used except for balancing accounts and for ruling. Asset and liability accounts are balanced in the same way as before by putting *Balance* in red ink on the smaller side and transferring this balance to the opposite side in black ink. This does not change the account but shows the result of the account in one amount.

How to Enter Inventories. Inventories must be entered by journal entry. The inventory of goods on hand is entered by opening a separate account for Merchandise Inventory, as follows:

Merchandise Inventory
    To Purchases

This has the same effect as crediting Purchases in red ink for the amount of the inventory and bringing the inventory below in black ink.

Since all closing entries use the general columns only, the entries are all given in the two-column journal form.

Freight In must be transferred to Purchases by the following entry:

Purchases
    To Freight In

Returns and Allowances on Purchases and on Sales must be transferred to Sales and Purchases respectively, as follows:

Returns and Allowances on Purchases
To Purchases

and

Sales
To Returns and Allowances on Sales

The balance of Purchases must then be transferred to Merchandise Trading and the balance of Sales to the same account, as follows:

Merchandise Trading
To Purchases

and

Sales
To Merchandise Trading

The value of any other asset or liability inventories must then be entered. These are inventories that have accrued or the payment of which is postponed to some later date but which must be used in closing the books for the current period. This is necessary in order to make each period show the profits or losses that belong to that period.

Some inventories of this kind will be illustrated. A liability inventory for accrued wages unpaid would be entered as follows:

Expense (or Labor)
To Accrued Liability Inventories

or, if for a freight bill unpaid,

Freight In
To Accrued Liability Inventories

For accrued interest on notes payable, the entry would be:

Interest
To Accrued Liability Inventories

or, if for taxes accrued, but unpaid,

Real Estate Expense and Income (or Taxes)
To Accrued Liability Inventories

To enter an accrued asset inventory, debit Accrued Asset Inventories and credit the account affected. To enter interest accrued on notes receivable, the entry would be:

Accrued Asset Inventories
To Interest

or, for commission earned, but unpaid,

Accrued Asset Inventories
To Commission

Such items as unearned insurance, unearned advertising, and unearned rent are sometimes entered in the same way. But these items represent parts of amounts that have already been entered but which have not been used the current fiscal period. No entry is necessary to put them on the books, but an entry will be made to take the nominal

or used element out of these accounts. This will be illustrated in the entries to follow.

After all inventories have been entered, it is necessary to transfer all nominal elements from their accounts to the Profit and Loss account.

To Transfer Profits. To transfer profits, *debit* the account that shows a profit and *credit* Profit and Loss, as follows:

Merchandise Trading
Commission
Discount on Purchases
    To Profit and Loss

To Transfer Losses. To transfer losses, *debit* the Profit and Loss account and *credit* the accounts that show a loss, as follows:

Profit and Loss
    To Expense
        Delivery Expense
        Real Estate Expense and Income
        Freight Out
        Interest
        Discount on Sales
        Etc.

To Transfer Earned Items and Depreciation. Where more has been charged to an account than has been used, or where depreciation is to be taken off, Profit and Loss account is debited and the account affected is credited, as follows:

Profit and Loss
    To Insurance, expired
        Advertising, expired
        Rent, expired
        Real Estate, depreciation
        Furniture and Fixtures, depreciation
        Delivery Equipment, depreciation

Although but one debit or credit in total is given to the Profit and Loss account in each journal entry, *each* account that shows a profit or loss must be shown in the account, as illustrated on page 267.

The Profit and Loss account, if it shows a profit, is closed by an entry as follows, after the proper entry for the adjustment of interest has been made:

Profit and Loss
    To J. Dunn, Personal
        D. Gardner, Personal

If it shows a net loss, the entry would be reversed. The personal account, if the credit side is the larger, is then closed into the capital account, as follows:

J. Dunn, Personal
To J. Dunn, Capital

and,

D. Gardner, Personal
To D. Gardner, Capital

If the debit side of a personal account is larger than the credit, the entry would be reversed.

Profit and Loss

19—								19—						
May	31	Expense	J	16	317	25	May	31	Mdse. Trading	J	15	1072	10
	31	Delivery Ex.	J	16	145	25		31	Commission	J	15	112	50
	31	Real Es. Ex.& In.	J	16	140	—		31	Disc. on Pur.	J	15	136	40
	31	Freight Out	J	16	12	80							
	31	Interest	J	16	17	25							
	31	Disc. on Sales	J	16	86	40							
	31	Insurance	J	16	12	50							
	31	Furn. and Fix.	J	16	3	50							
	31	Delivery Equip.	J	16	25	—							
	31	J. Dunn, Per.	J	16	280	53							
	31	D. Gardner, Per.	J	16	280	52							
					1321	—						1321	—

After these entries have been made, nothing but assets and liabilities remain on the books. All accounts that balance should then be ruled and all accounts should then be balanced except those that have but one item in them and have not been changed by the closing.

An account like Expense, with an accrued inventory for wages unpaid would appear as follows, after closing:

Expense

19—							19—						
May	31		C	15	216	25	May	31	To close	J	9	418	75
	31		J	8	175	—							
	31	Inventory	J	8	27	50							
					418	75						418	75

Insurance, with unexpired insurance, would be closed as follows:

Insurance

19—								19—						
May	1		C	9	150	—		May	31	To close	J	9	16	25
	15		C	11	90	—			*31*	*Balance*			*223*	*75*
					240	—							240	—
June	1	Balance			223	75								

Proof Trial Balance. The sum of the debit balances remaining on the books should equal the sum of the credit balances the same as in closing by ledger transfer. This is the proof trial balance.

After the closing has been completed, the temporary inventory accounts should be closed by transferring the items in them to the accounts affected. For the merchandise inventory, the entry would be:

Purchases
    To Merchandise Inventory

For accrued asset inventories, the entry would be the reverse of the entry to close:

Interest
Commission
    To Accrued Asset Inventories

For accrued liability inventories, the entry would be:

Accrued Liability Inventories
    To Expense
        Freight In
        Interest
        Real Estate Expense and Income (or Taxes)
        Etc.

Auditors and accountants consider this form of closing a much better one than the ledger transfer method because there is an entry on the original books for each inventory and for each transfer. These can be easily traced to the ledger by placing the folios in the proper columns of both the journal and the ledger.

Exercise 63. Make journal entries to close the books of Set VII, October. Make a manuscript Profit and Loss account and post to it. The result should be the same as the result obtained by closing the books by ledger transfer.

Exercise 64. Make journal entries to close the books of Set VII, November. Post to a manuscript Profit and Loss account.

REVIEW QUESTIONS

1. Why do most accountants prefer closing the ledger by journal entry instead of by ledger transfer?
2. In closing by journal entry, how is the merchandise inventory put on the books?
3. What entry should be made to enter an accrued asset inventory, such as, accrued interest on notes receivable, or accrued commission?
4. What entry should be made to enter an accrued liability inventory, such as, accrued wages or accrued interest on notes payable?
5. How should profits be closed into Profit and Loss?
6. How should losses be closed into Profit and Loss?
7. What entry should be made to transfer net profit or net loss to the partners' accounts?
8. How should advances to traveling salesmen be entered?
9. What entry should be made when a traveling salesman reports his expenses?
10. What entry should be made when the business prepays freight for the accommodation of a customer?
11. How should an entry to record the prepayment of freight for a customer be posted?
12. What entry should be made when a customer who has paid cash returns part of the goods and asks for cash for it?
13. How should the sale of stocks or bonds at a profit be entered? Why?
14. How should the sale of stocks or bonds at a loss be entered? Why?
15. To what account should a payment for packing boxes be charged? Why?
16. What entry should be made when real estate is purchased for cash and a note?
17. In making statements before closing the books, what would you do with a charge on the books for alterations to a room that is rented by the business?
18. In making statements before closing the books, what is done with each of the following accounts, and why: Freight In; Freight Out; Returns and Allowances on Sales; Returns and Allowances on Purchases; Commission; Sales Discount; Purchases Discount; Interest?
19. Explain the use of the Good Will account.
20. What does the Good Will account ordinarily show when closing the books?
21. Under what conditions may the Good Will account show something else? Explain.
22. If a going business increases in value, would Good Will show a profit?
23. What entry should be made on the books of a business to transfer the assets and liabilities to a new business?
24. What entry should be made on the books of the old business to show the receipt of cash for the sale of the business?
25. What entries should the purchaser of a partnership business make for the purchase and the payment of it?

CHAPTER XXXI

BOOKS AND ACCOUNTS OF A COMMISSION BUSINESS

In Chapter XXIII of Part II the method of handling a few shipments to be sold on commission and the necessary entries in the books of both the consignor and consignee were explained. In a large business devoted entirely to sales on commission or where the sales are largely of this character, the opening of a separate shipment and consignment account for each shipment would involve too much work. The accounts must be so kept that account sales may be easily and quickly rendered and the books proved. This is especially true in the sale of fruits, vegetables, and other produce that is more or less perishable.

The principles given in Chapter XXIII apply to a large commission business as well as to a few accounts but a larger business necessitates special books of entry and record, special columns in others, and special accounts.

Books of Entry and Record. The books kept in a commission business depend to a large extent on the size of the business and the kinds of goods handled. In a commission business for the sale of produce of different kinds both on commission and for the business, the following books of entry may be used: a *receiving book*, a *combined commission sales book* and a *merchandise sales book*, a *special column cash book*, a *special column journal*, and an *account sales register*. Three *ledgers* should be used unless the sales are mostly for cash, a *general ledger*, a *sales ledger* and a *consignment ledger*.

The Consignment Ledger. This is an auxiliary ledger in which the accounts of consignments are kept. A controlling account is kept for it in the general ledger called Consignments.

Each consignment of goods is given some distinguishing mark such as a number or a letter and number by which it is known and opened up in the consignment ledger.

The Loose-Leaf Consignment Ledger is a decided advantage as consignments are soon closed up and the open consignments can by this method be kept separate from those that are closed. The form here illustrated is in the form of an account sales. It may be made in duplicate and one copy sent to the consignor when account sales are

CONSIGNMENT LEDGER

CHICAGO COMMISSION COMPANY

CONST.
No. 58 Chicago, Ill., Nov. 10, 19—

To J. J. Maxwell,
Waterloo, Iowa,

For Merchandise Received Nov. 1, 19—

Nov.	1	Recd. 50 bbl. S. Flour					
		SALES CR.					
	3	15 bbl. S. Flour	$5.35	80	25		
	5	10 bbl. S. "	5.30	53	—		
	8	12 bbl. S. "	5.32	63	84		
	10	13 bbl. S. "	5.33	69	29		
				266	38		
		ALLOWANCES DR.					
	6	1 bbl. S. Flour	$5.35	5	35		
		NET SALES				261	03
		CHARGES DR.					
	1	Freight $12.80	Nov. 2 Drayage $ 4.25	17	05		
	5	Advance $100—	10 Storage $ 3.80	103	80		
	10	Insurance $ 1.72	10 Commission $20.88	22	60		
		TOTAL CHARGES				143	45
		Net Proceeds by Check				117	58

rendered, or a copy may be made of the ledger account when account sales are rendered.

The account is opened up by transferring the items received from the receiving book to the consignment account. No prices are specified unless the consignor has fixed the minimum price at which the goods shall be sold.

The freight, drayage, advances and other cash charges are posted to the consignment ledger from the cash book. The sales are posted from the commission sales book. When the consignment of goods has been sold, commission and other charges are entered and the net proceeds found.

The Receiving Book. This book is a book kept in the stock room by a clerk. The records in it are usually make in pencil. At the close of the day, it is turned over to the bookkeeper. Frequently two receiving books are used on alternate days, so that the clerk can be making the entries in one while the bookkeeper is posting the previous day's entries. The bookkeeper daily transfers these records to the consignment ledger under the proper consignments. It is here that each consignment is given some distinguishing mark by which it is known in the books.

Receiving Book

DATE 19—		F	CONSIGNOR AND ADDRESS	CONST. NO.	ARTICLES	TERMS
Nov.	6	18	Atlas Flour Mills Minneapolis, Minn.	18	50 bbl. A. Flour	Com. 8%
	8	19	G. J. Payne Streator, Ill.	19	8 cases Eggs	Com. 5%

Commission Sales Book. The sales book used in a strictly commission business is usually called a commission sales book. Where some sales are made for the account of the business, they are usually entered in the same book. It contains columns for sales from consignments both for cash and on account. The cash sales are also entered in the cash book and checked in both books. Sales of merchandise for the account of the business are entered in a separate column.

Daily all sales on account whether from consignments or from merchandise, must be posted to the debit of the personal account in the sales ledger in the usual way. Each *item* sold from consignments must be posted to the credit of the proper consignment account in the consignment ledger as shown by the number of the consignment. Each item should be checked in the check (√) column *after* it has been posted.

Monthly the total of the Accounts Receivable column is posted to the debit of Accounts Receivable. Consignments is credited for the total of the Consignments on Account and of the Consignments Cash columns. Sales is credited for the total of the Merchandise column. Before posting totals the sum of the first column should equal the sum of the last three columns.

COMMISSION SALES BOOK, NOVEMBER 28, 19—

	F			CONS'T NO.	√	EXTENSIONS		ACCOUNTS RECEIVABLE		CONSIGNMENTS ON ACCT.		CONSIGNMENTS CASH		MDSE.	
		Forward						2478	90	1673	70	318	25	486	95
	9	C. J. Frey, City													
		Terms: 2/10, n/30													
		15 bbl. S. Flour	5.25	18	√	78	75								
		5 bbl. Cranberries	5.90	14	√	29	50	108	25	108	25				
		28													
	12	K. L. Meyer, Evanston													
		Terms: n/30													
		200 bu. Potatoes	.50			100	—								
		5 cases Eggs, 180 doz.	.28	15	√	50	40								
		8 tubs Butter, 480 lbs.	.32	20	√	153	60	304	—	204	—			100	—
		30													
	√	F. E. Heinz, City													
		Terms: Cash													
		3 bx. Oranges	3.20	19	√	9	60								
		2 bx. Lemons	3.50	19	√	7	—								
		5 bunches Bananas	1.70			8	50	25	10			16	60	8	50
		30						2916	25	1985	95	334	85	595	45
	8	Accounts Receivable						2916	25						
	12	To Consignments								1985	95				
	12	Consignments								334	85				
	15	Sales								595	45				

The Cash Book. The form of the cash book is similar to that of Set VII. The Cash Receipts are entered and posted both daily and monthly the same as the Cash Receipts in Set VII. On the Cash Payments, no column is kept for Accounts Payable because there are only a few payments on account and no purchase ledger is used. But a column is kept for Consignments Dr., in which is entered all payments for the account of consignments. All payments for freight, drayage, advances, net proceeds, etc., are entered in this column. Daily the items are posted to the proper consignment accounts in the consignment ledger as *charges*. Monthly the total is posted to the debit of Consignments in the general ledger. The closing of the cash book is similar to that of Set VII.

CASH RECEIPTS, NOVEMBER 25-30, 19—

DATE		F	ACCOUNT	EXPLANATION	GENERAL		ACCOUNTS REC'BLE		SALES DISCT.		CASH DR.	
Nov.	25		Forward		8750	—	2896	30	42	60	11603	70
	26		J. Sieger & Co.	Inv. of 16th, less 2%			389	50	7	79	381	71
	27		Notes Receivable	J. Bailey's note disc.	725	—					725	—
	28		A. R. Stone	On account			300	—			300	—
	29		C. O. D.	H. E. Lane			68	75			68	75
	30		Notes Receivable	D. Joy's note	625	—					625	—
	30		Interest	30 da. on above	3	13					3	13
					10103	13	3654	55	50	39	13707	29
	30	√	General	Total	10103	13						
	30		Accounts Rec. Cr.	"	3654	55						
	30		Sales Disc. Dr.	"							50	39
	30	√	Cash Dr.	"							13707	29
					13757	68					13757	68
	30		Total Receipts								13707	29
											13707	29
Dec.	1		Balance	In bank	6153	39					6153	39

Journal. A four-column journal will be used. No purchase book will be kept since there are but few purchases of goods to be sold for the account of the business. Instead, a Purchases column will be kept, which will be posted in total only. The credit to the creditor from whom the goods were purchased is put in the general ledger as his account will be opened up there. No purchase ledger is necessary. The two credit columns are the same as those used in Set VII.

JOURNAL, NOVEMBER 21, 19—

PURCHASES DR.		GENERAL DR.		F	ACCOUNTS	EXPLANATION	GENERAL CR.		ACCOUNTS RECEIVABLE CR.	
1345	60	1582	05		Forward		2138	25	789	40
						23				
675	20			√	Purchases					
				11	To C. D. Dryer, Chicago, Ill.	Acct., 30 da.	675	20		
						25				
		425	—	12	Consignments	Our note at 30 da., with int-				
				10	To Notes Payable	erest at 6% for Const. No. 16	425	—		
						27				
		500	—	7	Notes Receivable	His note at 30 da., with				
				5	To D. G. Hinz	interest at 6%			500	—
2020	80	2507	05				3238	45	1289	40
		2020	80	14	Purchases Dr.					
		2507	05	√	General Dr.					
				√	To General Cr.		3238	45		
				8	Accounts Rec. Cr.		1289	40		
		4527	85				4527	85		

CASH PAYMENTS, NOVEMBER 25-30, 19—

DATE		F	ACCOUNT	EXPLANATION	GENERAL		CONSIGN-MENTS		PUR-CHASES DISCOUNT		CASH CR.	
Nov.	25		Forward		987	15	4738	16	21	30	5704	01
	26		M. E. Dexter	Inv. of 16th, less 2%	317	80			6	36	311	44
	27	√	Const. No. 15	Sgt. draft			200	—			200	—
	27		Expense	Stamps	5	—					5	—
	28	√	Const. No. 12	Net proceeds			414	25			414	25
	29		Stable Expense	1 T. Hay	17	50					17	50
	29		Advertising	Daily Post	25	80					25	80
	30	√	Const. No. 16	Net proceeds			875	90			875	90
					1353	25	6228	31	27	66	7553	90
	30	√	General	Total	1353	25						
	30		Consignments Dr.	"	6228	31						
	30		Purchases Disc. Cr.	"							27	66
	30	√	Cash Cr.	"							7553	90
					7581	56					7581	56
	30		Total Payments								7553	90
	30		*Balance*	*In Bank*							*6153*	*39*
											13707	29

Account Sales Register. This is a book of entry and record to show the different elements that enter into the account sales. No entries are made in it until the goods are sold and account sales rendered. The columns for *Total Sales* and for *Cash Charges* have been entered in the books and posted from the sales book and cash book respectively. All other columns are filled in from the amounts found in rendering account sales. Each column of *Other Charges* is posted in total to the debit of Consignments and to the credit of the accounts named: Storage, Insurance, Commission.

The *Net Proceeds, Cash* column is not posted in total as the amounts have been entered in the cash payments and posted from there in total. *Net Proceeds, On Account* is posted daily to the credit of the account in the general ledger and in total to the debit of Consignments. Before any posting in total is done, the sum of the *Total Sales* column should be proved with the sum of all the other money columns.

The Consignment Account. The controlling account of Consignments will show a liability of the amount owed consignors due to sales made from consignments that have not yet been closed up. The Consignment account should show items from the books of entry as shown in the illustration on page 276.

Account Sales

CONST. NO.	DATE 19—		CONSIGNOR	TOTAL NET SALES	CASH CHARGES		
					FREIGHT	DRAYAGE	ADVANCE
5	Mar.	8	B. C. Chase	978 40	47 25	12 15	500 —
7		12	M. E. Rowen	346 20	26 40	5 65	100 —
8		15	L. N. Ely	578 45	31 50	9 45	
3		20	C. J. Terrill	637 80	42 30	11 15	300 —
9		22	J. A. Sullivan	143 60	6 40	2 15	
2		24	J. C. Minn	316 75	14 35	7 80	150 —
4		27	D. E. Stark	206 45	19 50	6 25	100 —
1		28	H. A. Roberts	413 20	23 75	9 40	150 —
				√	√	√	√
		31		3620 85	211 45	64 —	1300 —

Consignments

19—						19—					
Nov.	8	Allowance, No. 7 J	4	15 60		Nov.	30	Acct. C. S.	20	6375 80	
	10	Acceptance, " 5 J	4	100 —			30	Cash C. S.	20	936 50	
	15	Allowance, " 9 J	5	6 50							
	18	Acceptance, " 10 J	5	200 —							
	30	C	11	3675 90							
	30	Storage A. S. R	4	42 80							
	30	Insurance A. S. R	4	18 90							
	30	Commission A. S. R	4	278 50							
	30	N/P Acct. A. S. R	4	836 80							
	30	*Balance*		*2137 30*							
				7312 30						7312 30	
						Dec.	1	Balance		2137 30	

To Prove the Consignment Ledger. List the open consignments by number. Find the difference between the sales and the charges of each consignment to date. The difference may be a credit difference due to an excess of sales over charges or a debit difference due to an excess of charges over sales. The sum of the credit balances less the sum of the debit balances should equal the balance of the Consignments account in the general ledger.

Consignment Ledger Proof, Nov. 30, 19—

Consignment No. 16	42 80		
" No. 18		870 50	
" No. 21	158 15		
" No. 23		617 15	
" No. 25		850 60	
Consignments Balance	*2137 30*		
	2338 25	2338 25	

Register

OTHER CHARGES						NET PROCEEDS				F.	ACCOUNT TO BE CREDITED	REMARKS
STORAGE		INSURANCE		COMMISSION		CASH		ACCOUNT				
17	50	5	25	48	92	347	33					Ck.No.296
3	25	1	75	17	31			191	84	8	M. E. Rowen	
4	80	3	20	28	92	500	58					Ck.No.310
10	75	4	15	31	89	237	56					Ck.No.331
			80	7	18	127	07					Ck.No.338
6	35	2	45	15	84			119	96	6	J. C. Minn	
		1	45	10	32	68	93					Ck.No.345
7	85	3	15	20	66	198	39					Ck.No.352
(12)		(13)		(14)		√		(10)				
50	50	22	20	181	04	1479	86	311	80			

Exercise 65. Draw forms for the necessary books of entry and make the entries for the following transactions as they should be made in the regular books of entry. You should understand the debit and credit effect of each entry no matter what book is used.

September 10. Received a consignment of 50 bbl. Baldwin apples and 75 bbl. Greening apples from the Crane Commission Co., Detroit, Mich.

10. Paid the freight on this consignment, $18.65 and the drayage, $4.50.

12. Sold D. E. Cherry, for cash, 25 bbl. Baldwin apples at $3.05.

13. Sold D. L. Kyle, for cash, 15 bbl. Greening apples at $2.95.

15. Sold M. E. Denton & Co., on account, 25 bbl. Baldwin apples at $3.05 and 35 bbl. Greening apples at $2.98.

15. D. E. Cherry returned one bbl. Baldwin apples as unsalable. Gave him cash for the apples returned.

16. Paid the sight draft of the Crane Commission Co., on account of the consignment, $200.

17. Sold O. P. Brady, on account, 10 da., 25 bbl. Greening apples at $3.

17. Rendered account sales to the Crane Commission Co. The following deductions were made at this time: $2.75 for storage, $1.20 for insurance, and 5% commission. Paid the net proceeds in cash.

Exercise 66. Draw the form for a consignment ledger. Post all the items from Exercise 65 that affect the consignment account to the consignment ledger. Close the account.

CHAPTER XXXII

A GENERAL PRODUCE AND COMMISSION BUSINESS

SET VIII

TRANSACTIONS FOR DECEMBER

The Object of this set is to show the method of keeping the books of a business that is made up of sales mainly on commission but with a few purchases and sales for the account of business.

Books of Entry. The books of entry will be the *journal*, *cash book*, *commission sales book*, *receiving book*, and *account sales register*. These books will be used and closed as explained in Chapter XXXI.

Three Ledgers will be used as explained in the last chapter, a *general ledger*, a *sales ledger*, and a *loose-leaf consignment ledger*.

No business papers will be made out in this set.

Post daily.

Open accounts in the general ledger, three on a page, in the following order:

Proprietors' Accounts	page 1
Asset Accounts	pages 2 and 3
Liability Accounts	pages 4 to 6

No purchase ledger is kept. Enter creditors' accounts under Liability Accounts in the general ledger.

Nominal Accounts	pages 7 to 10
Profit and Loss Account	page 11

Open accounts in the sales ledger, four on a page, in the order in which they occur in the transactions, beginning with page 13.

December 1. F. S. Godfrey, C. E. Godfrey, and J. I. Godfrey have this day formed a copartnership under the firm name of F. S. Godfrey & Sons to engage in a General Produce and Commission business. F. S. Godfrey invests cash, $1500 and a store building located at 150 W. South Water Street, Chicago, Ill., valued at $4500; C. E. Godfrey invests cash, $4000; and J. I. Godfrey invests two horses and a wagon valued at $475 and cash, $1525. It is agreed that they shall share profits and losses in proportion to the capital invested. It is also agreed that the partners shall receive salaries per month as follows: F. S. Godfrey, $125; C. E. Godfrey, $90; J. I. Godfrey, $75. The

salaries are to be paid and charged to the Salaries account, one-half on the 15th of each month and the balance on the last day of each month. No withdrawals are allowed.

Make the necessary entries for the investments.

Bought a set of commission books of the Jones Stationery Co. for cash, $23.75.

Bought office furniture for $56.25 and a typewriter for $75 cash.

December 2. Paid $5 for stamps.

Make a memorandum of the hiring of the Student as bookkeeper at a salary of $60 per month, payable on the 15th and on the last day of each month.

Received from the Star Mills, Milwaukee, a consignment of 200 bbl. Star Flour to be sold on commission.

Enter it in the Receiving Book and post it to the consignment ledger under Number 1.

Received from Lewis Bros., Syracuse, N. Y. a consignment of 300 bbl. Greening Apples. (No. 2)

Paid the Dixon Transfer Co. $62.50 for freight and drayage on the following:

Consignment No. 1, Freight, $16.25; Drayage, $5.00

Consignment No. 2, Freight, $32.75; Drayage, $8.50

Bought of J. C. Irwin, Waupaca, Wis., 800 bu. Potatoes at 33¢. Terms: 2/10, n/30.

Enter this and all other purchases for the account of the business in the journal. Four trading accounts will be kept: Purchases, Freight In, Sales, and Merchandise Trading.

Paid the freight on this purchase of potatoes, $31.40.

December 3. Received from the Madison Creamery Co., Madison, Wis., a consignment of 1000 lb. Creamery Butter and 720 lb. American Cream Cheese. (No. 3)

Paid freight on Consignment No. 3, $31.75, and drayage $4.25.

Received from D. G. Garst, Beloit, Wis., a consignment of 720 doz. Eggs, freight prepaid. (No. 4)

Paid drayage on Consignment No. 4, $2.45.

Sold Mercer & Co., City:

120 bu. Potatoes at 45¢

50 bbl. Greening Apples at $2.45 (No. 2)

Terms: account, 30 da.

Enter the sale in the commission sales book. Place the total amount of the sale in the first money column, extend the amount of the sale of potatoes to the Sales column, and the amount of the sale from Consignment No. 2 to the Consignments on Account column. Do not fail to place the number of the consignment after the sale of goods from a consignment.

Sold Hilden & Co., City:
45 bbl. Star Flour at $5.25 (No. 1)
240 lb. American Cream Cheese at 14¢ (No. 3)
Terms: 2/10, n/30.

Paid $8.50 for an advertisement in the Daily Press. Charge Advertising.

Bought grain and hay for horse feed for cash, $36.75.

Bought of C. L. Louders & Co., New York, 250 bunches Bananas at $1.35. Terms: 2/10, n/30.

Paid freight and drayage on this purchase of bananas, $12.50.

In posting from the commission sales book, the total of the invoice must be posted to the debit of the account in the sales ledger as before. Each sale from a consignment must be posted to the credit of the consignment in the consignment ledger under *Sales*. Check each item in the commission sales book as it is posted. This must be done each day as the commission sales book is posted.

December 4. Sold C. L. Mock, Janesville, Wis.:
150 bu. Potatoes at 44¢
180 lb. Butter at 31¢ (No. 3)
Terms: 2/10, n/30.

Sold J. C. Hammer, City, for cash:
25 bbl. Greening Apples at $2.42 (No. 2)
72 lb. American Cream Cheese at 13¾¢ (No. 3)

Received of E. Duncan & Co., Marshfield, Wis., a consignment of 60 bbl. Cranberries. (No. 5)

Received of Dillon & Co., Missoula, Montana, 200 boxes Jonathan Apples and 100 boxes Western King Apples. (No. 6)

Paid the Dixon Transfer Co. for freight and drayage, as follows:
Consignment No. 5, Freight, $15.75; drayage, $5.80
Consignment No. 6, Freight, $32.45; drayage, $7.20

Took out an insurance policy on the building and contents as follows: Building, $3900; office furniture, $100; and goods in the warehouse, $3000. Paid the premium for one year at 1¼% to Geo. Russell & Co.

Open an Insurance account for the premium paid.

December 5. Sold Barber & Co., City:
50 bbl. Star Flour at $5.28 (No. 1)
30 bunches Bananas at $1.65
140 lb. American Cream Cheese at 14¢ (No. 3)
Terms: on account.

Sold D. J. Boerger, City, for cash:
180 doz. Eggs at 24½¢ (No. 4)
210 lb. Butter at 31¼¢ (No. 3)

Sold H. A. Lederer, City:
75 bbl. Star Flour at $5.32 (No. 1)
225 bu. Potatoes at 45¢
15 bx. Jonathan Apples at $1.65 (No. 6)
Terms: 2/10, n/30.

Paid Chas. Carter $1.50 for sorting and repacking 20 boxes Jonathan Apples. (No. 6) 5 boxes Jonathan Apples from Consignment No. 6 are found to be defective and unsalable. Make a note of this in the consignment account in the consignment ledger.

Paid $4.74 for sacks for potatoes.

C. L. Mock, Janesville, returned 24 lb. Butter from Consignment No. 3 as unsatisfactory. Give him credit for it at the selling price to him. Refer to the commission sales book for the price.

December 7. Received of C. L. Shore & Co., Jersey City, N. J., a consignment of 120 bbl. Sweet Potatoes. (No. 7) The freight was prepaid.

Paid drayage on Consignment No. 7, $5.75.

The bank presents a sight draft on us for $150, drawn by Lewis Bros., on account of Consignment No. 2. Paid it.

Sold J. L. Dalton & Co., Madison, Wis.:
50 bunches Bananas at $1.68
30 bbl. Star Flour at $5.30 (No. 1)
15 bbl. Cranberries at $5.75 (No. 5)
20 bbl. Sweet Potatoes at $3.85 (No. 7)
Terms: account, 30 da.

Sold C. B. Felton & Co., Racine, Wis.:
252 doz. Eggs at 25¢ (No. 4)
360 lb. Butter at 32¢ (No. 3)
120 lb. American Cream Cheese at 14¢ (No. 3)
Terms: 2/10, n/30.

Render account sales to the Star Mills for Consignment No. 1. Charge $2.10 for insurance, $3.25 for storage, and 10% commission. Remit the net proceeds.

Before this consignment can be closed up, all sales and charges for the day must be posted. Turn to the commission sales book and post all the sales for the day.

To Close Consignments. 1. All sales and charges for the day to the consignment to be closed must be posted. There are no charges to this consignment for this day, except the charges on rendering account sales. The sales from this consignment for today must be posted at once.

2. Check with the books of entry all charges and all sales in the consignment. It is also best to glance through the check (√) column of the

commission sales book to see that all sales entered in it to the consignment have been posted.

3. Compute the commission on the total sales less any returns or allowances.

4. Enter the commission and any other charges, such as storage and insurance.

5. Find the sum of the charges and deduct that sum from the sum of the net sales. The difference is the net proceeds.

6. Enter in the account sales register the total sales, all the charges already entered under Cash Charges, all the other charges under the proper headings, and find the net proceeds.

If the net proceeds are to be paid in cash, place the amount of the net proceeds in the Net Proceeds, Cash column. If the net proceeds are to be credited to the account of the consignor, place the amount in the Net Proceeds, On Account column.

7. If the net proceeds are to be paid in cash, enter the payment in the cash book as a debit to the proper consignment account in the Consignments column.

8. If the net proceeds are to be credited to the account of the consignor, post the net proceeds to the credit of the consignor's account in the general ledger.

9. Transfer the ledger sheet for the consignment for which account sales have been rendered from *Open Consignments* to *Closed Consignments.*

Paid a sight draft on us for $200, drawn by Madison Creamery Co., on account of Consignment No. 3.

December 8. Sold Hilden & Co., City:

250 lb. Creamery Butter at 31½¢ (No. 3)
148 lb. American Cream Cheese at 13½¢ (No. 3)
25 bx. Western King Apples at $1.58 (No. 6)

Terms: 2/10, n/30.

Sold Chas. Mixer, City, for cash:

15 bbl. Sweet Potatoes at $3.95 (No. 7)
20 bbl. Cranberries at $5.80 (No. 5)
12 bunches Bananas at $1.72

Render account sales to the Madison Creamery Co. for Consignment No. 3. Charge $2.15 for storage and 5% commission. Remit the net proceeds in cash.

Follow the details explained under *To Close Consignments* given on December 7. Enter the net sales in the Total Sales column.

December 9. Bought of Biller & Co., Greenville, Mich., 500 bu. Potatoes at 36¢. Terms: 2/10, n/30.

Paid freight on the invoice from Biller & Co., $62.45.

Paid $14.75 for repairing the delivery wagon.

Received of Star Mills, Milwaukee, another consignment of Star Flour amounting to 250 bbl. (No. 8)

Paid freight, $24.25, and drayage, $7.50, on Consignment No. 8.

Received of James & Sanford, Riverside, Cal., a consignment of 50 boxes Oranges. (No. 9)

Paid freight, $28.90, and drayage, $3.75, on Consignment No. 9.

Sold B. J. Petry, City:

10 bbl. Cranberries at $5.80 (No. 5)
50 bx. Jonathan Apples at $1.68 (No. 6)
25 bbl. Greening Apples at $2.55 (No. 2)

Terms: account, 30 da.

Sold H. A. Lederer, City:

75 bbl. Greening Apples at $2.55 (No. 2)
20 bx. Western King Apples at $1.72 (No. 6)
25 bbl. Sweet Potatoes at $4.05 (No. 7)

Terms: 2/10, n/30.

December 10. J. L. Dalton & Co. returned one barrel Sweet Potatoes from Consignment No. 7 as unsalable. Give them credit for it.

Do not forget to post this to the proper consignment account in the consignment ledger.

Received of Mercer & Co., their note for $150, payable 30 days after December 6, with interest at 6%, on account.

Sold Griffin & Frost, South Bend, Ind.:

144 doz. Eggs at 26¢ (No. 4)
15 bbl. Cranberries at $5.78 (No. 5)
250 bu. Potatoes at 47¢
30 bunches Bananas at $1.70

Terms: 2/10, n/30.

Sold J. C. Hammer, City, for cash:

12 bbl. Sweet Potatoes at $3.92 (No. 7)
25 bbl. Star Flour at $5.35 (No. 8)
8 bx. Oranges at $3.25 (No. 9)
144 doz. Eggs at 26¢ (No. 4)

Received from the Bender Commission Co., Grand Rapids, Mich., a consignment of 50 cases Canned Peas; 15 cases Canned Corn; and 60 cases Canned Peaches. (No. 10)

Paid freight, $38.20, and drayage, $4.35, on Consignment No. 10.

Also paid the Bender Commission Co.'s sight draft for $200, on account of Consignment No. 10.

Render account sales to D. G. Garst for Consignment No. 4. Charge storage, $2.65, and commission 5%. Remit the net proceeds in cash.

Render account sales to E. Duncan & Co. for Consignment No. 5. Charge storage, $1.75, insurance, $1.95, and commission 7½%. Credit the net proceeds to their account.

December 11. Paid the Broad Letter Service Co. $7.50 for circular letters to be sent to the trade. Paid $5 for stamps for sending these circular letters.

Received of the Elgin Creamery Co., Elgin, Ill., a consignment of 960 lb. Creamery Butter. (No. 11)

Paid freight, $12.40, and drayage, $2.75, on Consignment No. 11.

Received of the Madison Creamery Co., Madison, Wis., a consignment of 480 lb. American Cream Cheese and 200 lb. Swiss Cheese. (No. 12)

Paid freight, $4.75, and drayage, $2.25, on Consignment No. 12.

December 12. Received of C. L. Vinton & Co., Hart, Mich., a consignment of 150 bbl. Baldwin Apples. (No. 13)

Paid freight, $32.85, and drayage, $4.50, on Consignment No. 13.

Paid the following sight drafts through the bank:

For $150, in favor of C. L. Shore & Co., for Consignment No. 7
For $100, in favor of Dillon & Co., for Consignment No. 6
For $200, in favor of Star Mills, for Consignment No. 8

Sold D. J. Boerger, City, for cash:

10 cases Canned Peas at $2.15 (No. 10)
15 cases Canned Peaches at $2.35 (No. 10)
60 bbl. Greening Apples at $2.47 (No. 2)

Sold Barber & Co., City:

65 bbl. Greening Apples at $2.50 (No. 2)
25 bx. Jonathan Apples at $1.68 (No. 6)
20 bx. Western King Apples at $1.60 (No. 6)

Terms: 2/10, n/30.

Render account sales to Lewis & Bro. for Consignment No. 2. Charge storage, $5.75, insurance, $3.25, and commission 6%. Remit the net proceeds in cash.

Paid J. C. Irwin for invoice of the 2d.

Received a check from Hilden & Co., for invoice of the 3d.

Paid C. L. Louders & Co. for invoice of the 3d.

December 14. Received a check from C. L. Mock for invoice of the 4th.

Received of J. C. Bradley, Carey, Ohio, a consignment of 300 bu. Onions and 100 crates Celery. (No. 14)

Received of D. G. Hill & Co., Olean, N. Y., a consignment of 150 bbl. Northern Spy Apples. (No. 15)

Paid Central Transfer Co. for freight and drayage, as follows:

Consignment No. 14, freight, $13.25; drayage, $2.50
Consignment No. 15, freight, $15.80; drayage, $4.75

December 15. Sold Thiel & Co., City:

50 bbl. Star Flour at $5.40 (No. 8)
12 bx. Oranges at $3.30 (No. 9)
15 cases Canned Corn at $1.95 (No. 10)
20 cases Canned Peaches at $2.40 (No. 10)

Terms: 2/10, n/30.

Sold B. J. Petry, City:
20 bbl. Sweet Potatoes at $4.10 (No. 7)
35 bx. Western King Apples at $1.56 (No. 6)
40 bx. Jonathan Apples at $1.70 (No. 6)
55 bu. Potatoes at 44¢
25 bunches Bananas at $1.75
Terms: note at 30 da., with interest at 6%.

The note is received with the order.
Received a check of H. A. Lederer, for invoice of the 5th.
Received a check of Barber & Co., on account, $250.
Paid each partner for one-half a month's salary.
Paid Student for one-half a month's salary.

December 16. Sold C. B. Felton & Co., Racine, Wis.:
65 bx. Jonathan Apples at $1.65 (No. 6)
20 cases Canned Peas at $2.08 (No. 10)
25 cases Canned Peaches at $2.38 (No. 10)
Terms: 2/10, n/30.

Sold Maerker & Co., Peoria, Ill.:
15 bx. Oranges at $3.30 (No. 9)
25 bunches Bananas at $1.75
240 lb. Creamery Butter at 32¢ (No. 11)
50 lb. Swiss Cheese at 16½¢ (No. 12)
Terms: account 30 da.

Render account sales to Dillon & Co. for consignment No. 6. Charge insurance, $1.25, storage, $3.85, and commission 5%. Remit the net proceeds in cash.

December 17. Accepted C. L. Vinton & Co.'s 30-day draft for $150, on account of Consignment No. 13.

Donated two bunches Bananas costing $1.35 per bunch to charity.

An account might be opened up for Donations. Some prefer to charge it direct to Profit and Loss. That is not considered a good plan as it is better not to charge payments of this kind to the Profit and Loss account but to keep that account for transfers at the end of the fiscal period. It is a form of advertising. You may charge it to the Advertising account. It must not be entered in the sales book.

What account should be credited? Why?

Sold Evans & Co., Grand Haven, Mich.:
15 bx. Oranges at $3.35 (No. 9)
20 cases Canned Peas at $2.18 (No. 10)
25 bbl. Baldwin Apples at $2.58 (No. 13)
Terms: 2/10, n/30.

Sold Griffin & Frost, South Bend, Ind.:
75 bu. Onions at 52¢ (No. 14)
30 crates Celery at 35¢ (No. 14)
40 bbl. Northern Spy Apples at $2.45 (No. 15)
Terms: 2/10, n/30.

Received of C. B. Felton & Co. a check for invoice of the 7th.

December 18. Received of Hilden & Co. a check for invoice of the 8th.

Received of H. A. Lederer a check for invoice of the 9th.

Render account sales to James & Sanford for Consignment No. 9. Charge insurance, 90¢, storage, $1.15, and commission 7½%. Remit the net proceeds in cash.

Paid Biller & Co. for invoice of the 9th.

December 19. Received of Griffin & Frost a check for invoice of the 10th.

Sold J. C. Hammer, City, for cash:
180 lb. American Cream Cheese at 14¢ (No. 12)
40 lb. Swiss Cheese at 17½¢ (No. 12)
180 lb. Creamery Butter at 32½¢ (No. 11)
150 bu. Potatoes at 47¢

Render account sales to the Bender Commission Co. for Consignment No. 10. Charge storage, $2.45, insurance, $1.35, and commission 10%. Remit the net proceeds in cash.

Received of E. Duncan & Co., Marshfield, Wis., a consignment of 42 bbl. Cranberries. (No. 16)

Paid freight, $14.80, and drayage, $5.15, on Consignment No. 16.

December 21. Paid $2.80 for shoeing horses.

Paid $9.80 for office stationery.

Sold Thiel & Co., City:
75 bbl. Star Flour at $5.38 (No. 8)
150 lb. American Cream Cheese at 14¢ (No. 12)
75 lb. Swiss Cheese at 17½¢ (No. 12)
10 bbl. Cranberries at $5.95 (No. 16)
Terms: 2/10, n/30.

Bought of J. C. Irwin, City, an invoice of 250 bu. Potatoes at 35¢. Terms: n/30.

December 22. Received of the San Diego Fruit Co., San Diego, Cal., a consignment of 50 boxes Oranges and 25 boxes Lemons. (No. 17)

Paid freight, $37.80, and drayage, $5.10, for Consignment No. 17.

Sold C. B. Felton & Co., Racine, Wis.:
100 bbl. Star Flour at $5.40 (No. 8)
150 lb. American Cream Cheese at 14¢ (No. 12)
35 lb. Swiss Cheese at 17½¢ (No. 12)
250 bu. Potatoes at 48¢
Terms: 2/10, n/30.

Received of Barber & Co. a check for invoice of the 12th.

Received of J. L. Dalton & Co. a check for $250, on account.

December 23. Received of D. G. Garst, Beloit, Wis., a consignment of 432 dozen Eggs. (No. 18)

Paid freight, $7.35, and drayage, $2, on Consignment No. 18.

Render account sales to the Madison Creamery Co. for Consignment No. 12. Charge storage, $3.50, insurance, $1.75, and commission 5%. Remit the net proceeds in cash.

Render account sales to Star Mills, Milwaukee, for Consignment No. 8. Charge storage, $4.20, insurance, $2.05, and commission 10%. Credit the net proceeds to the consignor's account.

December 24. Allowed Maerker & Co. credit for 80 lb. Butter at 16¢, as they report that it had to be sold at a loss. Charge it to Consignment No. 11.

Sold B. J. Petry, City:

27 bbl. Sweet Potatoes at $4.05 (No. 7)
90 bu. Potatoes at 48¢
125 bu. Onions at 55¢ (No. 14)
40 crates Celery at 38¢ (No. 14)

Terms: 2/10, n/30.

December 26. Paid Star Mills cash, $500, and gave a note at 30 days for $300, with interest at 6%, on account.

Sold Barber & Co., City:

100 bu. Onions at 55¢ (No. 14)
30 crates Celery at 36¢ (No. 14)
50 bbl. Baldwin Apples at $2.62 (No. 13)
25 bbl. Northern Spy Apples at $2.50 (No. 15)
12 bbl. Cranberries at $5.90 (No. 16)

Terms: 2/10, n/30.

December 28. Render account sales to C. P. Shore & Co. for Consignment No. 7. Charge insurance, $2.10, storage, $4.20, and commission 7½%. Remit the net proceeds in cash.

Render account sales to J. C. Bradley, for Consignment No. 14. Charge storage, $1.25, and commission 5%. Remit the net proceeds in cash.

December 29. The bank presents the following sight drafts which we have paid:

For $150, in favor of Elgin Creamery Co., for Consignment No. 11
For $100, in favor of D. G. Hill & Co., for Consignment No. 15
For $100, in favor of E. Duncan & Co., for Consignment No. 16

December 30. Received of Theil & Co. a check for invoice of the 21st.

Sold D. J. Boerger, City, for cash:

120 lb. Creamery Butter at 32¢ (No. 11)
5 bx. Lemons at $4.10 (No. 17)
15 bx. Oranges at $3.30 (No. 17)
15 bunches Bananas at $1.80

Sold D. Evans & Co., Grand Haven, Mich.:
50 bbl. Northern Spy Apples at $2.55 (No. 15)
25 bbl. Baldwin Apples at $2.65 (No. 13)
180 doz. Eggs at 24¢ (No. 18)
20 bbl. Cranberries at $5.90 (No. 16)
Terms: 2/10, n/30.

December 31. Render account sales to E. Duncan & Co., for Consignment No. 16. Charge storage, $2.85, insurance, $1.35, and commission 5%. Remit the net proceeds in cash.

Paid the salaries for one-half a month.

CLOSING WORK

1. Find the total of each amount column of the commission sales book. Prove the total of the Accounts Receivable column with the sum of the totals of the three distributive columns following. Close the commission sales book like the model in Chapter XXXI. Post the totals.

2. Find the totals of each column of the cash book. Prove each side of the cash book. Close the cash book like the model in Chapter XXXI. Post the totals.

3. Close the journal like the model in Chapter XXXI. Post the totals.

4. Find the sum of each amount column of the accounts sales register. Prove the total of the Total Sales column with the sum of the other amount columns. Close the account sales register like the model in Chapter XXXI. Post the totals of each column under *Other Charges* and the total of the *Net Proceeds on Account* column to the debit of Consignments. Credit the total of each column under *Other Charges.* Do not post the other totals.

5. Make a proof of the sales ledger in the usual way.

6. Make a proof of the consignment ledger. To do this, list the open consignments by number and balances. To find the balance of a consignment, find the difference between the total sales to date and the charges and allowances. The difference may be either a debit or a credit difference. The sum of the credit balances less the sum of the debit balances should equal the balance of the Consignments account.

7. Take a trial balance of the general ledger.

8. Make Trading and Profit and Loss statements. Use the following information in addition to the information to be obtained from the ledger:

Inventories:
Merchandise Inventory:
260 bu. Potatoes at 35¢
61 bunches Bananas at $1.35
Stable Supplies, on hand, $6.75
Expense Supplies, on hand, $5.25

The business owes a coal bill amounting to $15.75, which has been in dispute. The amount has now been agreed upon. Use it as a liability inventory.

Compute interest on two notes receivable bearing interest for the expired time. Compute interest on one note payable for the expired time.

Insurance unexpired, $81.15

Commission earned on open consignments: 5% of the net sales on all except Consignment No. 15, 8% on Consignment No. 15

Storage earned on open consignments, $3.10

Depreciation on Horse and Wagon, 2%

Depreciation on Furniture and Fixtures, 1%

Depreciation on Real Estate, $\frac{1}{2}$%

9. Make a balance sheet. The balance sheet shows the same results as are shown by the statement of Assets and Liabilities, except in a different form. The balance sheet is usually made out by the accountant after the ledger is closed, but it is advisable for the student to make it out first, in order to prove up his work before closing the ledger.

In the balance sheet the assets are listed to the left and the liabilities to the right in the form of a balanced statement. The assets should be listed in a definite order either beginning with the fixed or permanent assets and ending with Cash or in the reverse order. In the same way the liabilities should begin with the capital accounts and end with the least permanent liability or in the reverse order.

In making the balance sheet, use the following form:

Balance Sheet, December 31, 19—

Assets:			Liabilities:		
Real Estate:			Chas. Black, Capital	12715	25
Cost $12000.00			James Orton, Capital	12672	50
Depreciation, 1% 120.00	11880	—	Notes Payable	4500	—
Furniture and Fixtures:			Accounts Payable	8257	75
Cost $225.00			Salaries, Unpaid	27	50
Depreciation, 2% 4.50	220	50	Interest, Accrued	3	80
Merchandise Inventory	6178	90			
Notes Receivable	5117	85			
Accounts Receivable	9178	40			
Advertising, Unused	75	—			
Insurance, Unexpired	24	75			
Cash	5501	40			
	38176	80		38176	80

Make journal entries to close the ledger, and post them:

a) To put the inventory of merchandise on the books. Open a Merchandise Inventory account.

b) To put the accrued asset inventories of interest on notes receivable, and commission and storage earned in the proper accounts. Debit Accrued Asset Inventories.

c) To put the accrued liability inventories of expense and interest on notes payable in the respective accounts. Credit Accrued Liability Inventories.

d) To close the trading accounts into Merchandise Trading.

e) To close Merchandise Trading account into Profit and Loss.

f) To close the profits in the Profit and Loss section into Profit and Loss.

g) To close the losses in the Profit and Loss section into Profit and Loss.

h) To close the balance of the Profit and Loss account into the partners' capital accounts. The balances are closed into the partners' capital accounts because no personal accounts are necessary in this set.

11. Rule each account that balances.

12. Balance all other accounts except those that have but one item in them.

13. Compare each account after closing with the amount of that account in the balance sheet you have made. The amounts should agree.

14. Copy the Trading and Profit and Loss statements and the Balance Sheet in your books.

15. Submit all your books to your teacher for correction.

Exercise 67. Draw forms for the necessary books of entry and make the entries for the following transactions:

August 1. Received of the Mason Commission Co., Davenport, Iowa, a consignment of 36 cases eggs, 36 doz. each, to be sold on commission.

2. Paid freight on this consignment, $10.65, and drayage, $3.50.

3. Sold 12 cases eggs at 29¢ a dozen to M. E. Sargent for cash.

5. Sold 8 cases eggs at 30¢ a dozen to J. A. Murray, on account.

7. Paid the sight draft of the Mason Commission Co., for $100.

9. J. A. Murray returned one case of eggs as unsalable. Gave him credit for them.

10. Sold 10 cases eggs at 28¢ a dozen to M. I. Long, on account, 10 days.

12. Sold 6 cases eggs at 31¢ a dozen to J. B. Marvin for cash.

13. Rendered account sales. Charged the following items in addition to those already entered: Insurance, $1.42, storage, 2¢ per case per day, and commission, 5%. Credited the net proceeds to their account.

Exercise 68. a) Draw the form of a consignment ledger and post to it the transactions of Exercise 67 that affect the consignment account.

b) Find the net proceeds.

c) Make the entries in journal form for the transactions on August 13 to show the debit and credit effect of the transactions.

Exercise 69. You hold C. L. Colby's 90-day note for $750 and their account shows a balance of $312.25. He is bankrupt and, with other creditors, you accept payment at 65 cents on the dollar. A check is received on that basis. Make the necessary entries.

Exercise 70. On March 10, Townsend & Co. bought 50 shares of First National Bank stock, of a par value of $100 each, at $125\frac{1}{2}$, brokerage, $\frac{1}{8}\%$. On April 1, a dividend of 2% was received on the stock. On May 15, 30 shares of First National Bank stock were sold at $127\frac{1}{4}$, less $\frac{1}{8}\%$ brokerage. On May 20, 20 shares of First National Bank stock were sold at $124\frac{3}{8}$, less brokerage, $\frac{1}{8}\%$. Make the necessary entries for these transactions and show the ledger accounts closed up.

Exercise 71. From the following mixed Merchandise account and an inventory of $5876.15 make four trading accounts and show each one closed, under date of March 31.

MERCHANDISE

Jan.	1	Inventory	$3685.20	Jan.	12	Returned Goods	$ 21.40
	8	Packing Boxes	34.50		31	Sales	4137.90
	14	Returned Goods	17.20	Feb.	8	Freight Rebate	3.25
	15	Freight	56.80		12	Damaged Goods	13.80
	31	Purchases	5375.40		28	Sales	3147.90
Feb.	12	Rebate on Goods	18.90	Mar.	6	Rebate on Goods	18.75
	15	Freight	78.40		12	Returned Goods	50.80
	28	Purchases	3142.75		31	Sales	5080.75
Mar.	8	Damaged Goods	8.95				
	12	Freight	32.90				
	17	Packing Barrels	7.25				
	31	Freight	12.40				
	31	Purchases	4152.80				

Exercise 72. J. E. Jackson and M. L. Elliot are engaged in a partnership business under the firm name of J. E. Jackson & Co. On January 1, J. E. Jackson invested $8000 and M. L. Elliot, $6000. J. E. Jackson's personal account shows a credit of $75 on January 15 and of $75 on January 31. M. E. Elliot's personal account shows a credit of $60 on January 15 and of $60 on January 31. On January 10, J. E. Jackson withdrew $32 and on January 20, $25. On January 8, M. E. Elliot withdrew $40 and on January 22, $15. Adjust interest at 6%, under date of January 31.

REVIEW QUESTIONS

1. What are the advantages of a loose-leaf consignment ledger?
2. What items in the consignment ledger are debits and which credits?
3. Describe the receiving book. How are the items in it transferred?
4. Give the columns of the commission sales book and tell how each is posted daily and monthly.
5. In posting the commission sales book, what should be done with each item sold from a consignment?
6. Why is a column for consignments kept on the Cash Payments? How is it posted?
7. How are purchases of merchandise entered in this set?
8. Give the closing entry for the journal.
9. What is the object of the accounts sales register?
10. What columns of the account sales register are posted and why?
11. How do you prove the consignment ledger?
12. What is meant by the net proceeds of a consignment?
13. How is an allowance to a customer for a sale entered? How is it posted?
14. What entry is made when the business pays a draft on account of a consignment?
15. What entry is made when the business accepts a draft on account of a consignment?
16. What is the meaning of an open consignment with the debit side the larger?
17. Give the steps necessary to close a consignment and render account sales.
18. Make entries in journal form to show the closing of a consignment.
19. What entry is made if the net proceeds of a consignment are paid in cash?
20. What would be the entry in journal form to show net proceeds on account?

MISCELLANEOUS QUESTIONS AND PROBLEMS

1. A firm is in the retail implement business and receives many notes in payment of sales. It discounts all of these notes at once. How would you modify your books of entry so as to give the necessary information with less work?

2. In the firm of Walker & Co., J. C. Walker's capital is $8000 and M. E. Miller's capital is $6000. They share profits and losses equally. They agree to take in C. L. Frost as a third partner on the payment of $8000, $2000 of which is paid for the good will of the business. What entries should be made?

3. Two persons exchange each other's notes for $2000. What would probably be the object of such a transaction? What entry would be made on the books of each?

4. On accepting a position as bookkeeper you find that the cash is short $100. What methods would you take to find the shortage? If it could not be found, what entry would you make with the consent of the proprietor?

5. J. A. West began business with a capital of $7500. During the year he withdrew $1250. At the end of the year a statement of assets and liabilities showed assets of $9375 and liabilities of $15785. Has he lost or gained, and how much? Show his capital account closed up.

6. Under what circumstances would it be advisable to keep more than one Sales account? What changes would you make in the books of entry if you did?

7. An auditor found, in auditing the books of a business after it had been closed, that an inventory of $4750 had been entered as $5750. Unpaid wages accrued of $40 had not been entered and commission earned by the business amounting to $25 had not been entered. How would you correct the mistakes?

8. A, the owner of a store building, used by his business, wishes his books to show that his expense for rent earned by the building each month is $150. How should he show this on his books?

9. A check for $150, which you received from C. A. Stockton and credited to his account is returned marked "No funds." What entry would you make?

10. A business borrows $5000 from a bank on its note and gives as collateral security eight Illinois Central $1000 bonds. What entry and records should be made?

11. The books of a business have been destroyed by fire. From card records it is found that at the time of making the last statement, the goods on hand amounted to $7385, and that there was bought during this time goods amounting to $7510. From these card records it was also found that there was on hand at the time of the fire an inventory of $5480. The insurance company paid $4275 for the merchandise destroyed. Sales were made at a profit of 20% on the sales. Does the Merchandise Trading account show a profit or a loss and how much?

12. A note of H. A. Faber, for $500, which Brown & Co. had discounted at the bank is protested for non-payment. As indorser, Brown & Co. must pay the face of the note, the interest at 6% for 90 days, and the protest fees, 50¢. What would the entry be?

PART IV

CHAPTER XXXIII

CORPORATIONS

The Supreme Court of the United States has defined a corporation as "an association of individuals united for some common purpose and permitted by law to use a common name, and to change its members without a dissolution of the association." In the famous Dartmouth case, Chief Justice Marshall described a corporation as an "artificial being, intangible, invisible, and existing only in contemplation of law."

These definitions are legal and technical. For our purpose, a simpler definition is better. A *Corporation* is an association of individuals formed and united by statute into one body and authorized to act as a single individual. The individuals that form a corporation are called *stockholders*.

Advantages of Corporate Organization. Corporations possess certain advantages over partnerships which far outweigh the disadvantages of the corporate form. The principal advantages of corporate organization are as follows:

1. A corporation has continuous existence and is not affected by the death or withdrawal of a member.
2. A corporation is a legal entity that can make contracts, hold title to property, and sue in its own name.
3. A stockholder may transfer his interest or pledge it without the consent of the other stockholders.
4. The liability of stockholders is limited to the par value of their stock, except in the case of stockholders of national banks and most state banks, in which a double liability is enforced.
5. The stockholders of a corporation are not liable for the unauthorized acts of other stockholders.
6. Ease of management is another advantage of the corporate form.
7. It is easier for a corporation to raise a large capital and to borrow money than it is for a partnership.

Disadvantages of Corporate Organization. The principal disadvantages of the corporate form are as follows:

1. A corporation must have permission from the state and is

limited as to the business it conducts, while a partnership is formed by agreement and is not limited as to its business.

2. A corporation must make certain reports to the state at regular intervals which individuals and partnerships need not make.

3. It is often difficult to get the members of a corporation together to act in an emergency.

4. A corporation may be subject to certain taxes to which individuals and partnerships are not subject.

5. The business of certain corporations is restricted and supervised by the state even to the extent, in some states, of prescribing rates and supervising the issue of bonds. This is especially true of such corporations as transportation companies, water, gas, electric light and power companies, and telephone companies. These are usually called public service corporations.

Before explaining the organization of corporations certain terms must be defined.

A Charter is a certificate from a state authorizing a corporation to begin business, and together with the corporate laws of the state restricts the business of the corporation.

The Capital Stock of a corporation is the amount of stock authorized by the charter. It is divided into a certain number of divisions called *shares*. Each share is worth on its face the amount represented by the amount of the capital stock divided by the number of shares. This is called the *par value* of a share of stock. The par value of most shares of stock is $100. That is, if a corporation is organized with a capital stock of $100,000, it is divided into 1,000 shares with a par value of $100 per share.

Organization. Before an association of men can do business as a corporation they must obtain a charter from some state. To do this, they must follow the law of the state in which they wish to be incorporated. A corporation may be incorporated in one state and do business in other states if it conforms to the laws of the states in which it does business. The laws governing the formation of corporations differ in the different states but they are quite similar.

Each state puts the duty of supervising the filing of the papers and of issuing the certificate of incorporation upon some executive officer of the state. In most states it is given to the Secretary of State but in some states there is a Commissioner of Corporations to whom this duty is given.

The Different Steps necessary under the corporation laws of Wisconsin are as follows:

I. Three or more persons must make, sign, and acknowledge *Articles of Incorporation* containing the following:

1. There must be a declaration of association.

2. The name and location must be given.

3. The capital stock, the number of shares, and the par value of each share must be given.

4. There must be a designation of the general officers and of the number of directors, which must be at least three.

5. The principal duties of each officer must be given.

6. The methods and conditions upon which members shall be accepted and discharged or expelled must be given.

7. Any other provisions of the corporation, and, if desired, the duration of the corporation may be given.

In many states these articles are called Articles of Association.

II. The original articles or a copy verified by two signers must be filed with the Secretary of State.

III. A verified copy of the Articles of Incorporation showing the date of acceptance by the Secretary of State must be recorded with the Register of Deeds of the county in which the corporation is to have its home office, within thirty days. There is no legal existence until this is done.

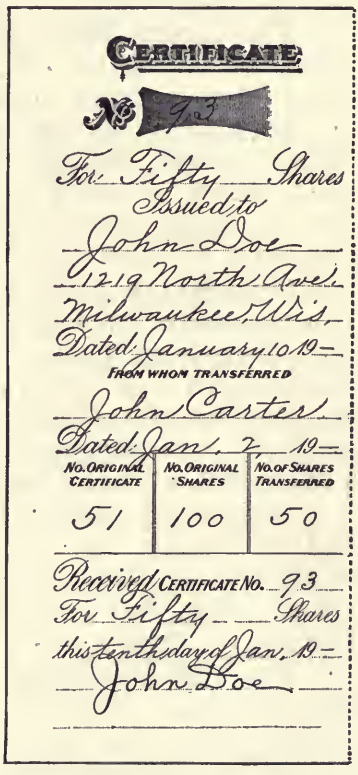
IV. The Register of Deeds must transmit to the Secretary of State a certificate stating the time when said articles were recorded.

V. The Secretary of State then issues a certificate of incorporation, which, together with the general incorporation laws of the state, is the charter of the corporation.

VI. Before a corporation can transact business, one-half of its capital stock must be subscribed, and at least one-fifth thereof paid in.

This portion of the law differs very greatly in the different states, some requiring that all of the stock be subscribed and all paid in before the corporation can do business.

CERTIFICATE STUB


CERTIFICATE
No. 93
For Fifty Shares
Issued to
John Doe
1219 North Ave.
Milwaukee, Wis.
Dated January 10 19—
FROM WHOM TRANSFERRED
John Carter
Dated Jan. 7, 19—

No. ORIGINAL CERTIFICATE	No. ORIGINAL SHARES	No. OF SHARES TRANSFERRED
51	100	50

Received CERTIFICATE No. 93
For Fifty Shares
this tenth day of Jan. 19—
John Doe

Powers of Corporations. The powers of corporations are of two kinds, those expressly enumerated in the charter and those implied or *common law* powers that are necessary because of corporate existence. Many of the powers known as implied powers have, in many states, been included in the statutes. The principal powers, express and implied, are as follows:

1. To have a corporate name.

2. To have continuous, and, in many states, perpetual existence.

About half of the states grant perpetual succession. The other states grant the charter for periods of time varying from twenty to one hundred years. But in each of the latter states, the corporation charter may be renewed at the end of the time specified, thus making it in effect perpetual.

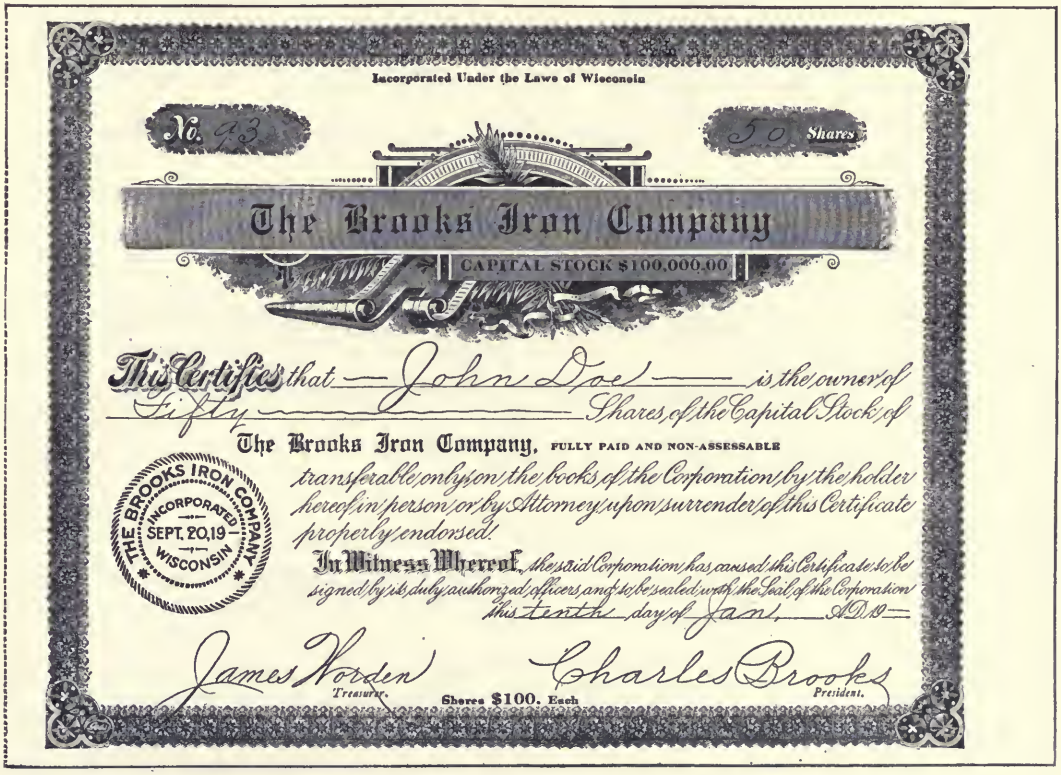
3. To have a corporate seal.
4. To sue and be sued in its corporate name.
5. To make contracts in accordance with the restrictions of the charter.
6. To acquire and hold real and personal property.
7. To make by-laws and other regulations for their own government.

Management. The stockholders of a corporation, as such, do not manage the corporation. A corporation acts through its agents. The agents of a corporation are the board of directors and the officers.

Board of Directors. Annually the stockholders elect a board of directors to manage the corporation for them.

In some states the law allows the corporation to elect part of the

STOCK CERTIFICATE


Incorporated Under the Laws of Wisconsin
No. 93
50 Shares
The Brooks Iron Company
CAPITAL STOCK $100,000.00
This Certifies that John Doe is the owner of
Fifty Shares of the Capital Stock of
The Brooks Iron Company, FULLY PAID AND NON-ASSESSABLE
transferable only on the books of the Corporation by the holder
hereof in person or by Attorney upon surrender of this Certificate
properly endorsed.
In Witness Whereof, the said Corporation has caused this Certificate to be
signed by its duly authorized officers, and its seal affixed hereto at the Seat of the Corporation
this tenth day of Jan. A.D. 19—
THE BROOKS IRON COMPANY
INCORPORATED
SEPT. 20, 19
WISCONSIN
James Worden
Treasurer.
Shares $100. Each
Charles Brooks
President.

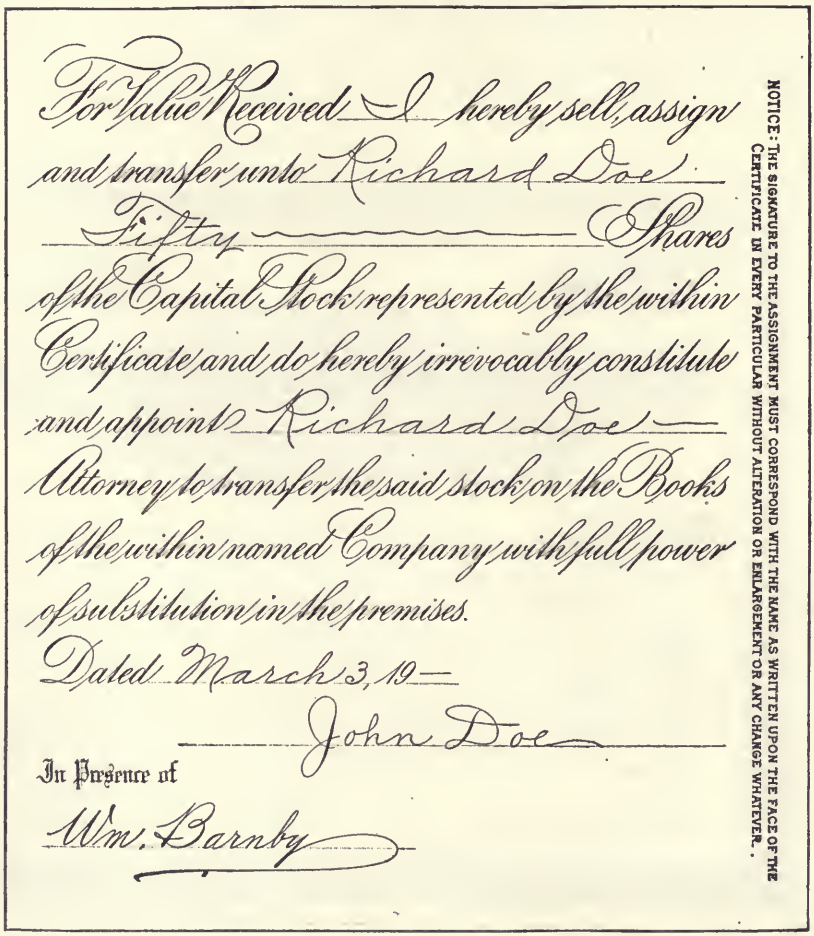
board of directors each year instead of all.

The number of members of the board is determined by the law of the state or by the by-laws of the corporation. It is usually an odd number, such as, 3, 5, 7, 9, or 11. In electing a board of directors, each stockholder has as many votes as he has shares of stock. In a majority of the states, all directors must be stockholders.

The board of directors passes upon the principal transactions and leaves the details to the officers or to a committee composed of members of the board of directors.

Officers. The principal officers of a corporation are a president, one or more vice-presidents, a secretary, and a treasurer. They are usually elected by the board of directors, each director having one vote, but they may be elected by the stockholders. In a majority of the states, the law requires the president to be elected from the board of directors. In actual practice, the principal officers are usually elected from the board of directors. The duties of the various officers are so well known that they will not be enumerated here.

ASSIGNMENT ON BACK OF CERTIFICATE


For Value Received I hereby sell, assign and transfer unto Richard Doe
Fifty Shares
of the Capital Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint Richard Doe
Attorney to transfer the said stock on the Books of the within named Company with full power of substitution in the premises.
Dated March 3, 19—
John Doe
In Presence of
Wm. Barnby
NOTICE: THE SIGNATURE TO THE ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

Membership in a Corporation. An individual may become a member of a corporation by subscribing for stock or by buying the interest of a stockholder. When an individual sub-

scribes for stock and pays his subscription in full, he receives a certificate of stock as evidence of ownership.

Certificate of Stock. A certificate of stock is an acknowledgment by the corporation that the person to whom it is issued is a stockholder and entitled to all the rights of a stockholder as to the number of shares named. (See illustration on pages 296 and 297.)

Sale of Stock. If a stockholder wishes to sell his interest in a corporation or a part of it, he must sign a form of assignment on the back of the certificate. The certificate must then be taken to the secretary of the corporation, who will transfer the ownership on the books of the corporation. If John Doe wished to transfer the certificate on page 297 to Richard Doe, he would fill out and sign the form of assignment on the back of the certificate of stock. (See illustration on page 298.)

Kinds of Stock. Capital stock may be *Common* or *Preferred.*

Common Stock is the ordinary stock of a corporation. If all of the stock is of one kind and has the same provisions and restrictions, it is common stock.

Preferred Stock is stock that entitles the holder to a division of the profits called dividends before any profits are distributed to the holders of common stock. In some states, it may also entitle the stockholder to a preference in the distribution of the assets of the corporation upon dissolution. The certificate of stock must state on its face the privileges and preferences to be given to preferred stock. It specifies a rate of dividend which the holder of it shall receive before the holders of common stock receive anything. The holders of preferred stock rarely have the right to vote in the management of the corporation.

Preferred stock may be of two kinds, *Cumulative* or *Non-cumulative.*

Cumulative Preferred Stock entitles the holder to a specified per cent of dividend each year before the common stock receives anything. If there are not sufficient profits one year to pay the dividend on cumulative preferred stock, the dividends accumulate and must be paid for each year that was unpaid before the common stockholders can receive anything.

Non-cumulative Preferred Stock entitles the holder to a specified per cent of dividend for the current year only. If there are not sufficient profits to pay the dividend for the current year, it lapses and is never paid.

The fact that the preferred stock specifies a rate of dividend does not make it interest-bearing, as stock very rarely bears interest.

Dividends. When a corporation has made profits, the board of directors has power to distribute part or all of the profits as dividends. In a partnership, each partner has a right to his share of the net profits

as soon as they are determined, but in a corporation, the stockholders have no such right. The declaring of a dividend is left to the discretion of the board of directors. Dividends are usually payable in cash and are declared on the basis of a certain per cent of the par value of the stock or as a certain amount per share. For example, if a dividend of five per cent is declared, the holder of each share of a par value of $100 would receive $5. Or, the dividend may be declared as $5 per share.

Sometimes, when the payment of a cash dividend would impair the working capital of the corporation, a stock dividend may be declared unless the state law prohibits it.

Corporation Books. The books of account kept by a corporation need not differ much from those of a partnership, but certain additional books of record are necessary to record the acts of the corporation as such. The principal ones are the *subscription book*, the *minute book*, the *stock certificate book*, the *stock transfer book*, the *stockholders' ledger*, and the *dividend book*.

The Subscription Book contains a record of all subscribers, their residences, the number of shares of stock subscribed by each, and the par value of the stock. In order to bind the subscribers, they must sign the subscription paper or sign in the book.

SUBSCRIPTION BOOK

Common Capital Stock, $50,000

DATE		F.	NAME OF STOCKHOLDER	ADDRESS	NO. OF SHRS.	AMOUNT
19—						
Jan.	2	1	D. E. Vinton	Chicago, Ill.	200	20000—
	2	1	C. L. Brewer	" "	100	10000—
	2	2	M. N. Evans	" "	75	7500—
	2	2	F. A. Sanborn	" "	50	5000—
	2	3	G. L. Gray	" "	50	5000—
	2	3	J. E. Barnes	Milwaukee, Wis.	25	2500—
					500	50000—

The Minute Book is a book in which the minutes of the meetings of the stockholders and of the board of directors are kept. The secretary of the corporation makes the records in this book. All business transacted should be carefully and accurately recorded in it. The minutes furnish the evidence of what was done at each meeting, and for that reason, must be frequently consulted by the bookkeeper and

accountant. The minutes should be signed by the president and secretary.

The Stock Certificate Book is a book consisting of a number of blank stock certificates numbered consecutively and attached to stubs. When a stockholder pays for his stock in full, he receives a certificate of stock filled in with the name of the stockholder, the number of shares, and the date. The corporation seal is attached to it and the signatures of the president and the treasurer. The stub contains details of the certificate and the signature of the stockholder. When stock is sold, the certificate is surrendered to the corporation and a new one issued. The canceled certificate is usually attached to the stub to which it belongs. A certificate of stock and the stub from which it is detached is illustrated on pages 296 and 297.

The Stockholders' Transfer Book is a book of entry and record to record the sale or transfer of stock from one party to another. It may contain a blank form to be filled in and signed by the party transferring the stock. The account of the person selling is debited and that of the person buying is credited. It is posted to the stock ledger.

STOCKHOLDERS' TRANSFER BOOK

Folio	TRANSFERRED BY	Number of Shares	Number of Certificates
10	C. A. Ryan	25	38
	TO		
15	John H. Hale	25	108

Transfer No. 85

For value received, I *hereby sell, assign and transfer to* John H. Hale, of Chicago, Ill., Twenty-five *Shares of the Capital Stock of the Wagner Manufacturing Co., of Chicago, Ill., now standing in* my *name on the Company books and represented by surrendered Certificate* 38.

Witness my *hand and seal this* 15th *day of* January, 19—

C. A. Ryan [L. S.]

By John Wilson, Atty.

Witness:

D. C. Moore

The Stockholders' Ledger is an auxiliary ledger that contains the accounts of all the stockholders. The stockholders' ledger shows each stockholder's original purchase, his transfers of stock, and the balance of stock that he owns. The sum of the balances of the stockholders' ledger must

equal the amount of stock outstanding. The stockholder is credited for the certificates of stock he owns and is debited for the certificates he surrenders.

STOCKHOLDERS' LEDGER

C. N. Towner, 3016 State St., Milwaukee, Wis.

DATE 19—		HOW DISPOSED OF	CER. NO.	SHRS.	AMOUNT	DATE 19—		HOW ACQUIRED	CER. NO.	SHRS.	AMOUNT
June	8	C. L. Voss	60	10	1000—	May	1	Original	5	100	10000—
July	10	Surrendered	5	100	10000—		15	D. G. Inkley	60	10	1000—
	15	D. C. Cross	95	50	5000—	June	30	C.G.Gardner	85	25	2500—
Dec.	*31*	*Balance*		*75*	*7500*—	July	10	Reissued	95	50	5000—
							10	Reissued	96	50	5000—
				235	23500—					235	23500—
						19—					
						Jan.	1	Balance		75	7500—

The Dividend Book is a book in which a record is kept of each dividend declared and paid. It contains the names of all stockholders of record at the time of declaring a dividend, with the address, the number of shares, the dividend, and the number of the dividend check. It may contain a column for the signature of each stockholder but that is not necessary, as most corporations pay by a dividend check that is a receipt when properly indorsed.

DIVIDEND BOOK

THE BROOKS IRON CO.

Dividend No. 1, Jan. 10, 19—

5%

NO.	STOCKHOLDER	NUMBER OF SHARES	PAR VALUE OF SHARES	AMOUNT OF DIVIDEND	WHEN PAID	CHECK NO.
1	C. E. Brooks	400	40000—	2000—	Jan. 10	645
2	H. L. Jewett	250	25000—	1250—	10	646
3	N. E. Hilton	100	10000—	500—	10	647
4	B. E. Blackburne	150	15000—	750—	10	648
5	J. I. Collins	50	5000—	250—	10	649
7	D. C. Bain	50	5000—	250—	10	650
		1000	100000—	5000—		

In addition to these the corporation may keep an *installment book* and an *installment script book* if the subscriptions are payable in installments.

The Installment Book shows the amount due from each stockholder for each installment, and his payment.

The Installment Script Book is a book of receipts and stubs which are filled in when the installments are paid, the receipts being given to the stockholder. When all the installments have been paid, the script receipts are surrendered to the corporation and a certificate of stock is issued.

A Bond Register may be kept if the corporation issues bonds, a *corporate calendar* may also be kept to show the time of holding meetings, sending notices, making reports, etc.

Exercise 73. Draw forms for a stock transfer book and for a stockholders' ledger, make the entries, and transfer them to the stockholders' ledger.

1. On July 1, the Shaw Motor Co. was incorporated for $50,000 divided into 500 shares of a par value of $100 each, with paid up stock as follows: J. C. Shaw, 200 shares; C. L. Coskey, 150 shares; J. E. Thomas, 100 shares; D. L. Reinnoldt, 50 shares.

Enter in the stockholders' ledger as it is original stock and would be entered first in the subscription book and not in the stock transfer book.

2. August 15. J. E. Thomas transferred 25 shares to C. L. Coskey.

3. September 10. D. L. Reinnoldt transferred 25 shares to D. C. Hilty, 15 shares to J. C. Shaw, and 10 shares to J. E. Thomas.

4. October 5. C. L. Coskey transferred 25 shares to J. E. Thomas and 15 shares to D. C. Hilty.

5. November 25. J. C. Shaw transferred 20 shares to C. L. Coskey and 10 shares to J. E. Thomas.

CHAPTER XXXIV

CORPORATION ENTRIES AND ACCOUNTS

In opening up corporation books, some new accounts are necessary to record the organization of the corporation and the dealings of the corporation with its stockholders. The principal accounts peculiar to a corporation are the *Capital Stock* account, the *Subscriptions* account, the *Unsubscribed Stock* account, and the *Treasury Stock* account.

Capital Stock Account. This account is kept to show the entire capital stock authorized by the charter. It is credited for the authorized capital stock when the corporation is organized whether all of the stock is subscribed for and issued or not. The account always shows a liability. If all the stock has been issued, it represents the liability of the corporation to its stockholders. If only part of the stock has been issued, the part unsubscribed must be deducted from the authorized capital stock to find the liability to stockholders. The credit to Capital Stock represents the maximum amount of stock that can be issued according to the charter. For this reason, some prefer to call this account Authorized Capital Stock.

Subscriptions Account. This account is kept to show the par value of the stock subscribed for and the payments on the subscriptions. It is debited for all subscriptions to stock and credited for all payments on subscriptions. The account must show an asset unless all the subscriptions have been paid, when it balances.

Unsubscribed Stock. This account is kept to show the amount of the capital stock authorized but not subscribed for. It is debited for the authorized capital stock that is unsubscribed and credited when this stock is subscribed for. Although the account always shows a debit balance unless it balances, it is not treated as an asset but as a deduction from the liability of Capital Stock. In the balance sheet it should be shown in that way on the liability side.

Treasury Stock. Treasury Stock is stock that has once been issued to stockholders but which has been bought back by the corporation, donated to the corporation, or forfeited to it. It is called treasury stock because it is usually held by the treasurer of the corporation. In some states a corporation is prohibited from holding its own stock.

In that case, there can be no account of treasury stock. Any of its own stock acquired by a corporation must be held by a trustee for the corporation and charged to him. Original unsubscribed stock should never be called treasury stock.

Several problems will now be explained to show the opening entries for corporations formed under different conditions.

All Subscriptions Paid.

Problem 1. William Evarts, Charles Burchard, James Oastler, and Conrad Pelton have formed the Evarts Mfg. Co. with an authorized capital of $50000. William Evarts subscribed for $25000; Charles Burchard for $15000; and James Oastler and Conrad Pelton for $5000 each. All the subscriptions have been paid in.

Subscriptions account should be *debited* and Capital Stock account *credited* for the authorized capital, $50000. In the cash book, Cash should be *debited* and Subscriptions *credited* for the same amount. The journal entry would be made as follows:

Milwaukee, Wis., October 1, 19—.

		The Evarts Mfg. Co. was incorporated under the laws of the State of Wisconsin on Oct. 1, 19— with an authorized capital of $50,000, divided into 500 shares, each with a par value of $100.			
		1			
		Subscriptions	500 shares subscribed	50000 –	
		To Capital Stock	as follows:		50000 –
			Wm. Evarts, 250 shares		
			Chas. Burchard, 150 shares		
			James Oastler, 50 shares		
			Conrad Pelton, 50 shares		

In the cash book, the following entry would be made to record the payment of the subscriptions:

Cash Receipts

19—							
Oct.	1		Subscriptions	As follows:		50000 –	
				Wm. Evarts	$25000		
				Chas. Burchard	15000		
				James Oastler	5000		
				Conrad Pelton	5000		

Part of Stock Subscribed.

Problem 2. If the same company had been incorporated for $50000 with only part of the stock subscribed for and paid in, other entries would be necessary. The subscriptions are as follows: Wm. Evarts, $25000; James Oastler, $5000; and Conrad Pelton, $5000.

The entries necessary will all be made as journal entries with the details omitted.

When the corporation is formed the following entry would be made:

Subscriptions	$35000	
Unsubscribed Stock	15000	
To Capital Stock		$50000

When the subscribers pay for their stock, the following entry should be made:

Cash	$35000	
To Subscriptions		$35000

When this unsubscribed stock is afterward subscribed for, the entry would be

Subscriptions	$15000	
To Unsubscribed Stock		$15000

When this stock is paid for the entry would be

Cash	$15000	
To Subscriptions		$15000

In many cases, stock is paid for by transferring some asset other than cash to the corporation. It may be a patent right, real estate, fixtures, a stock of goods, machinery, delivery equipment, etc.

In each case, the entry should first be made as a debit to Subscriptions and a credit to Capital Stock. Then, to record the payment, the account of the asset is debited and Subscriptions credited as follows:

Patent	$10000	
To Subscriptions		$10000

or,

Real Estate	$5000	
To Subscriptions		$5000

or,

Purchases	$3000	
To Subscriptions		$3000

Partnership Changed to Corporation.

Because of the advantages of the corporate form, many partnerships and individual proprietorships have been changed to corporations. This may be done without increasing the capital of the partnership, the capital may be increased by paying the proprietors something for the good will of the business, or the partnership may be changed to a corporation by increasing the stock in order to permit others to be

taken in as stockholders. The latter is the most common proceeding and the partners are usually given stock for the good will of the partnership.

In changing from a partnership to a corporation, the same books of account may be used or a new set of books may be opened up. Both methods will be illustrated.

The basis of the change from a partnership to a corporation is a *Balance Sheet* or *Statement of Assets and Liabilities*. The corporation, on accepting the partnership business in payment of stock, may take the values on the partnership books or change them to agree with actual values.

Without Increasing the Stockholders.

Problem 3. The partnership business of the firm of Harris & Bain shows the following condition, September 1, 19—

Balance Sheet, September 1, 19—

Assets		Liabilities	
Real Estate	$10000	C. Harris, Capital	$12000
Office Fixtures	400	N. Bain, Capital	8000
Delivery Equipment	1250	Notes Payable	4500
Merchandise Inventory	6780	Accounts Payable	3700
Notes Receivable	1350		
Accounts Receivable	6680		
Cash	1740		
	$28200		$28200

The Harris-Bain Co. has been incorporated for $20000 to take over the business of the partnership of Harris & Bain.

If the same books of account are to be used by the corporation, the following entries would be made:

Subscriptions	$20000	
To Capital Stock		$20000

Then, to show the payment of the subscriptions:

C. Harris, Capital	$12000	
N. Bain, Capital	8000	
To Subscriptions		$20000

If a new set of books is to be opened up, as is the usual custom, the old books must first be closed.

To Close the Old Books, the following entries must be made:

Harris-Bain Co	$28200	
To Real Estate		$10000
Office Fixtures		400
Delivery Equipment		1250
Merchandise Inventory		6780
Notes Receivable		1350
Accounts Receivable		6680
Cash		1740

To close the assets that have been transferred to the Harris-Bain Co.

Notes Payable	$4500	
Accounts Payable	3700	
To Harris-Bain Co.		$8200
To close the liabilities that have been assumed by the Harris-Bain Co.		
Harris-Bain Co., Stock	$20000	
To Harris-Bain Co.		$20000
200 shares of stock, par value, $100 each, in full payment of the business transferred to the Harris-Bain Co.		
C. Harris, Capital	$12000	
N. Bain, Capital	8000	
To Harris-Bain Co., Stock		$20000
Distributed stock in the Harris-Bain Co. in full for the respective partners' interests.		

To Open up a New Set of Books, there would be the usual memorandum, then the following entries:

September 1, 19—

Subscriptions	$20000	
To Capital Stock As follows:		$20000
C. Harris, 120 shares		
N. Bain, 80 "		

September 1

Real Estate	$10000	
Office Fixtures	400	
Delivery Equipment	1250	
Merchandise Inventory	6780	
Notes Receivable	1350	
Accounts Receivable	6680	
Cash	1740	
To Notes Payable		$ 4500
Accounts Payable		3700
Harris & Bain		20000
To transfer the assets and assume the liabilities of Harris & Bain, according to the action of the Board of Directors, per Minute Book, page —.		

September 1

Harris & Bain	$20000	
To Subscriptions		$20000
Issued stock in payment of the business of Harris & Bain, transferred, per Minute Book, page, — as follows:		
C. Harris, 120 shares		
N. Bain, 80 "		

Since the laws of many states provide for at least three incorporators, it would be necessary to sell at least one share to an employee or to some one else in order to meet the requirements in these states.

The Transfer of a Partnership with Good Will Included.

Problem 4. Using the same balance sheet as in problem 3, we shall assume that the Harris-Bain Co. is incorporated for $25000, all of which is issued to the partners for their interest in the firm of Harris & Bain.

Only those entries will be given that are different from those of problem 3.

It is understood that the $5000 issued above the net worth of the old business is for the good will of the old business. The partners are equal partners and must share in the $5000 equally. The following entry would first be made if the old books of account are used:

Good Will	$ 5000	
To C. Harris, Capital		$ 2500
N. Bain, Capital		2500
Value of the good will of the firm when purchased by the Harris-Bain Co., and divided equally.		

Then, the entry to close the Capital accounts and show the payment of the subscriptions:

C. Harris, Capital	$14500	
N. Bain, Capital	10500	
To Subscriptions		$25000

If new books are opened up, the entries would be similar to those of problem 3, except that Good Will, $5000, would be included as a credit in closing the old books and as a debit in opening up the new books. The amounts to the accounts of Harris & Bain, etc., would be changed correspondingly.

More Stockholders than Members of Partnership.

Problem 5. Another problem must be considered, the transfer of a partnership business to a corporation with an increase sufficient to permit others to be taken in as stockholders. The same balance sheet will be used as in problem 3. The authorized capital is $50000, $25000 of which is issued to the old firm for the net worth of the old business

and the Good Will of $5000. Of the balance, $15000 is subscribed for at par by others and the subscriptions paid in cash. In a case like this, the old books are seldom used. The entry to close the old books is the same as that given in problem 4. The entries to open the new books are as follows:

Subscriptions	$40000	
Unsubscribed Stock	10000	
To Capital Stock		$50000

The entries to transfer the business of Harris & Bain to the corporation are the same as those given in problem 4.

When the other subscribers pay their subscriptions in cash, the following entry would be made:

Cash	$15000	
To Subscriptions		$15000

Note Given for a Stock Subscription.

Problem 6. Taking the conditions given in problem 5, we shall suppose that the unsubscribed stock is afterward subscribed for by C. Landers, $6000 and D. Kyle, $4000. C. Landers pays his subscription in cash while D. Kyle gives a note at one year, with interest at 6% in payment. The following entries are necessary:

Subscriptions	$10000	
To Unsubscribed Stock		$10000

and,

Cash	$ 6000	
To Subscriptions		$ 6000

and,

Notes Receivable (Stock)	$ 4000	
To Subscriptions		$ 4000

A note given for a stock subscription should not be charged to the ordinary Notes Receivable account but to a separate account, because notes of this character are not often available for discount and are often never paid in cash but are frequently renewed and the dividends allowed to pay for the stock.

Preferred Capital Stock.

Problem 7. The Curtiss Manufacturing Co. is incorporated for $200000, $100000 being common stock and $100000 cumulative preferred stock. 75% of the common stock is subscribed for and 60% of this paid in. 80% of the preferred stock is subscribed for and 75% of this is paid in.

In making entries for a corporation that is formed with both common and preferred stock, all entries for the two kinds of stock must be made so as to show what kind of stock is affected by the entry. Separate accounts must be kept for Common Capital Stock and for Preferred Capital Stock. In the same way the accounts for subscriptions

to common and preferred stock and for unsubscribed common stock and unsubscribed preferred stock must be kept separate.

The entries would be as follows:

Subscriptions, Common Stock	$75000	
Unsubscribed Common Stock	25000	
To Common Capital Stock		$100000
Subscriptions, Preferred Stock	$80000	
Unsubscribed Preferred Stock	20000	
To Preferred Capital Stock		$100000
Cash	$45000	
To Subscriptions, Common Stock		$45000
Cash	$60000	
To Subscriptions, Preferred Stock		$60000

Make the entries in journal form to open the books in the following transactions:

Exercise 74. The Brown Mfg. Co. is incorporated with a capital stock of $50000, divided into 500 shares of $100 each. The entire amount is subscribed and paid for as follows: D. C. Robinson, 200 shares; C. L. Stockton, 150 shares; M. E. Erwin, 100 shares; F. L. Burns, 50 shares.

Exercise 75. May 1. The City Transfer Co. is incorporated with a capital stock of $25000, divided into 2500 shares of $10 each. 1500 shares are subscribed for as follows: C. L. Scott, 750 shares; D. E. Greene, 400 shares; E. F. Phelps, 250 shares; L. N. Harrison, 100 shares.

a. Each subscriber pays 50% of his subscription.

b. June 10. D. L. Winter subscribes for 150 shares and pays 50% of his subscription.

c. Nov. 1. Each subscriber pays the balance of his subscription.

Exercise 76. The Joseph Hadden Mfg. Co. is incorporated with an authorized capital of $50000 common stock and $50000 preferred stock. One-half the common stock is subscribed for and paid in full. $30000 of the preferred stock is subscribed for and 50% of it paid in.

Exercise 77. The J. C. Parker Co. is incorporated with an authorized capital of $100000. $75000 is subscribed for, $50000 of which is paid in cash. J. C. Parker paid his subscription of $25000 by transferring to the corporation his patent rights in several machines for the manufacture of wire fence. D. E. Evans was voted $5000 of stock for his services in organizing the corporation.

Exercise 78. The partnership of Long, Hinckley & Allen has decided to incorporate under the name of The Long Mfg. Co., with a capi-

tal of $30000, divided equally among the partners. The balance sheet upon which the transfer is made is as follows:

Balance Sheet, March 1, 19—

Assets		Liabilities	
Land and Buildings	$12500	D. Long, Capital	$10000
Office Fixtures	375	A. Hinckley, Capital	10000
Horses and Wagons	580	B. Allen, Capital	10000
Mdse. Inventory	9375	Mortgages Payable	5000
Notes Receivable	3810	Notes Payable	4500
Accounts Receivable	13570	Accounts Payable	8140
Cash	7430		
	$47640		$47640

a. Make the entry to transfer from the partnership to the corporation, using the same books of account.

b. Make the entries to close the partnership books and to open corporation books if new books are to be used.

Exercise 79. Using the same balance sheet as in Exercise 78, the partnership is incorporated for $45000, each partner receiving one-third of the capital stock. Make the entries necessary to close the partnership books and to open the corporation books.

Exercise 80. The partnership of Gill & Johns is incorporated under the name of the Gill Mfg. Co., for $50000. $30000 is subscribed for by Gill & Johns, equal partners and the partnership business is transferred to the corporation in full payment of this stock. S. Vine subscribed for $5000 and K. D. Price for $5000. Both paid their subscriptions in full. The balance sheet of the firm of Gill & Johns is as follows:

Balance Sheet, Jan. 1, 19—

Assets		Liabilities	
Real Estate	$11500	E. F. Gill, Capital	$12000
Patents	2750	J. C. Johns, Capital	12000
Machinery and Tools	3500	Notes Payable	5000
Furniture and Fixtures	275	Accounts Payable	9530
Delivery Equipment	630	Reserve for Bad Debts	475
Material	2175	Labor, unpaid	615
Finished Goods	3850		
Notes Receivable	3250		
Accounts Receivable	7750		
Insurance, unexpired	160		
Cash	3780		
	$39620		$39620

a. Make the entries to close the partnership books and to open the corporation books.

b. Make the entries for the cash subscriptions.

c. May 1. F. A. Curtis is engaged as manager. He subscribed for $5000 of stock and gave his note for that amount payable two years after date. Make the entry.

Exercise 81. The National Enameling Company is incorporated for $100000. $50000 of this is common stock and $50000 is 6% preferred stock. The corporation purchases the business of the Johnson Mfg. Co., at the following valuation: Plant & Sundry Assets, $35000; Good Will, $15000. Preferred stock is issued for the value of the plant and other assets and common stock for the good will of the Johnson Mfg. Co.

The balance of the common stock is subscribed for and paid as follows: C. Torrent, $15000; D. Jackson, $12000; B. Berger, $8000. The balance of the preferred stock is held for future development.

CHAPTER XXXV

MANUFACTURING COSTS

In order to understand a manufacturing business, it is necessary to understand the various elements that go to make up the total cost of the manufactured article. These elements vary somewhat according to the business and the article manufactured but the principal elements are the same. There are three principal elements of cost in manufacturing: the cost of the *raw material,* the cost of the *labor,* and the *manufacturing* or *factory expenses.*

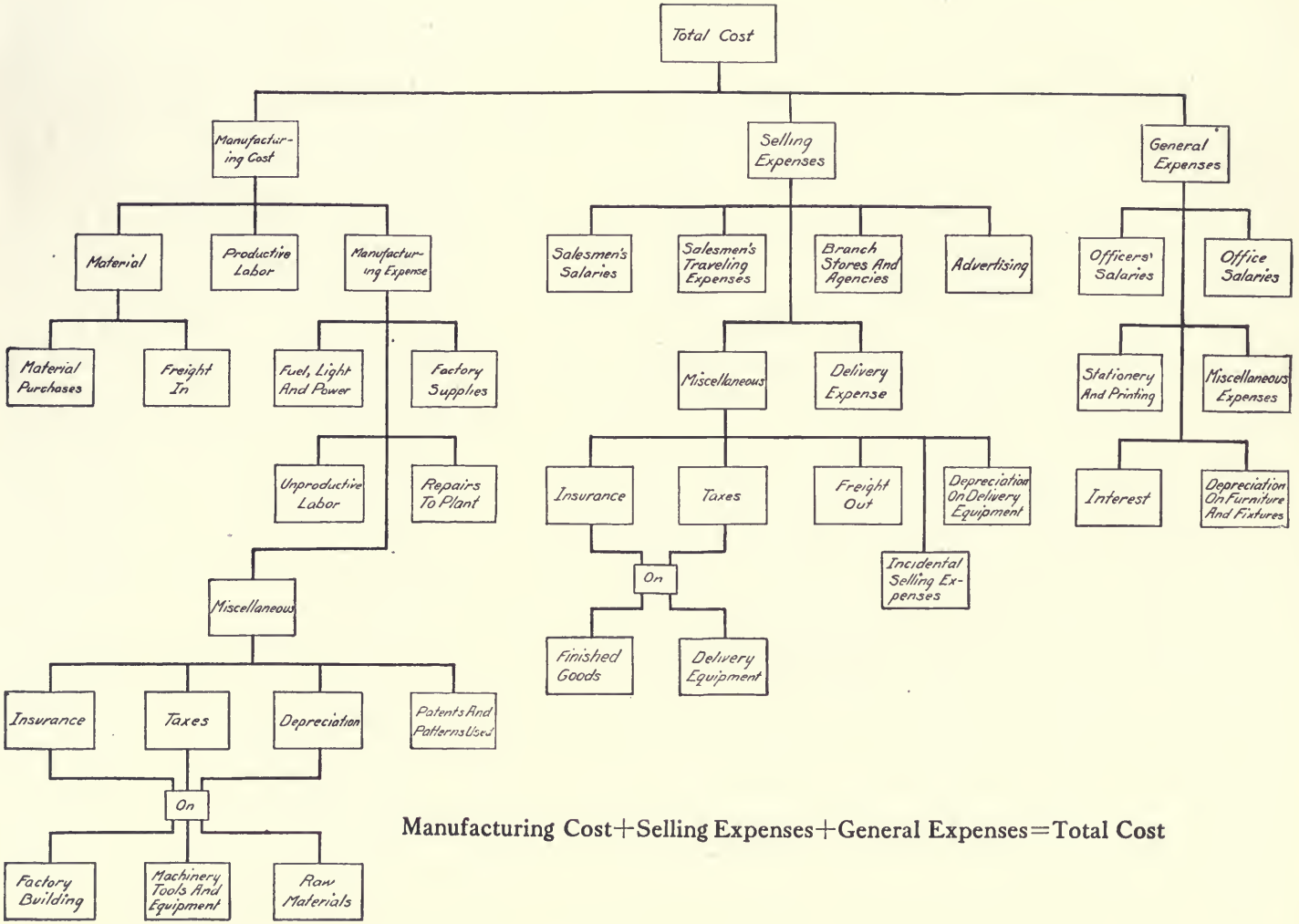
Raw Material. Raw material, in an accounting sense, is anything that enters directly into the material used to produce the finished product. It may be material in its natural state, as iron ore, wood, wool, cotton, hides, etc., or it may be the finished or partly finished product of another factory or of a department of the same factory, as, iron castings for stoves, cloth for suits, leather for shoes, gasoline engines for automobiles, etc.

The cost of the raw material includes not only the cost of the material but also the cost of whatever charges are necessary to put the material into the factory, as, freight and drayage charges and duties on imports.

In order that a business may know what raw material has been used, and what is on hand at any particular time, a record should be kept of the raw material received, that used, and the amount on hand at any time. This is usually called a *Stock Record.* but may be called an *Inventory Book* or a *Stores Record.*

The Stock Record. This record may be kept in a bound book but is more frequently kept on loose-leaf sheets which may be put into a binder, or it may be kept on stock cards. A separate sheet or card may be kept for each kind of raw material purchased, but if there are not many different kinds of raw material used, they may all be kept on several continuous sheets with many articles on a sheet.

After the invoice has been checked as to quantities, prices, terms, and extensions, it is entered in the book of entry used, then it is entered on the debit side of the proper stock record. The freight should be added to the cost of the material and the cost per unit computed to at



Manufacturing Cost + Selling Expenses + General Expenses = Total Cost

least four decimal places and entered. The stock is given out only on a requisition or order issued and signed by some one authorized to do so, as the superintendent or a foreman.

MATERIALS STOCK RECORD

Article *Raw Linseed Oil*

Maximum *100 gal.*
Minimum *20 gal.*

Section *C* Bin *12* Rack *B*

RECEIVED			DELIVERED				COST PER GAL.	VERIFIED	
DATE	ORDER NO.	QUANTITY	DATE	ORDER NO.	QUANTITY	BAL.		DATE	EMPLOYEE
1/10	*1275*	*50*				*50*	*.615*		
			1/15	*1896*	*10*	*40*			
			1/25	*1932*	*20*	*20*		*1/31*	*C. L. Hart*
2/5	*1342*	*75*				*95*	*.6125*		
			2/10	*2080*	*15*	*80*			

The entry in the Materials Stock Record for Material Delivered is made from the Materials Requisition blank.

MATERIALS REQUISITION

Deliver to

Jan. 15, 19—

Department *A*

Operation No. *1896*

MATERIAL	QUANTITY	CHECK	
Raw Linseed Oil	*10 gal.*	√	

C. D. SHAW,
Manager.

At any time, the difference between the material purchased and that used may be found and the balance put in the balance column.

The materials stock record really constitutes a perpetual inventory book for raw material. It is a valuable book also for the buyer, for it

usually contains a notation to order more when the quantity falls to a certain minimum. Whenever the quantity on hand of any kind of material is low, it should be checked with the actual material on hand. In that way it is not necessary to take a physical inventory at the time of making the statements because the book inventory will be checked several times a year by this method.

Labor. The second element of cost in manufacturing is often the most important element. The term labor as a prime element of cost includes all productive or direct labor. It includes the cost of all labor employed directly in any of the manufacturing processes of converting the raw material into the finished product. It does not include labor that is a necessary part of the process of manufacturing but which does not enter directly into the finished product.

Labor that is unproductive or indirect includes the wages of time keepers, watchmen, workmen employed in cleaning or repairing machines, common laborers, engineers, firemen, foremen, etc.

Proper records are kept by means of Time Cards or Sheets. They are then summarized on the Pay Roll Sheet and the proper distribution made. Most factories find it necessary to know how much labor was expended on each job or on each lot that goes through the factory. The Time Card, for that reason, may show a great many details not necessary for the bookkeeping records.

TIME SHEET

THE WEST FOUNDRY CO.

Rate *30c* Name *H. A. Harter*

Cost Sheet No. *135*

JOB NO.	WEEK ENDING *Jan. 10, 19—*						TIME	AMOUNT		COST LEDGER
	M	T	W	T	F	S				
749	*6*	*2*	*1*				*9*	*2*	*70*	√
751	*2*	*1*	*2*	*5*	*2*	*1*	*13*	*3*	*90*	√
752	*1*	*3*	*2*	*1*	*7*	*2*	*16*	*4*	*80*	√
755		*3*	*4*	*3*		*2*	*12*	*3*	*60*	√
	9	*9*	*9*	*9*	*9*	*5*	*50*	*15*	*00*	√

These cost records are then posted and summarized under the various jobs or lots in the cost ledger. The study of the different methods of keeping these cost records is a study of cost accounting and will not be explained here.

PAY ROLL FOR THE WEEK ENDING *Jan. 2*, 19—

NO.	NAME	M	T	W	T	F	S	TOTAL NO. HOURS	WAGES PER HOUR	TOTAL WAGES	DISTRIBUTION				
											PRODUCT. LABOR	UNPRODUCT. LABOR	FUEL, LIGHT & POWER	DELIV'Y EXP.	SHIPPING
8	C. D. Howard	9	9	9	9	9	9	54	40c	21 60	21 60				
15	D. E. Pierce	9	8	8	9	9	9	52	35c	18 20	18 20				
28	M. E. Buckland	9	9	9	9	9	5	50	35c	17 50	17 50				
30	C. L. Kelley	4	9	9	9	9	9	49	30c	14 70	14 70				
31	D. L. Loyd	9	9	9	9	8	8	52	20c	10 40		10 40			
32	C. N. Wolfe	9	9	9	10	10	9	56	30c	16 80			16 80		
35	M. E. Newman	8	8	8	8	8	8	48	30c	14 40				14 40	
36	M. L. Lucas	8	8	8	8	8	5	45	32c	14 40					14 40
37	T. N. Gordon	8	8	5	5	0	0	26	20c	5 20					5 20
		73	77	74	76	70	62	432		133 20	√ 72	√ 10 40	√ 16 80	√ 14 40	√ 19 60

The elements of material and productive labor constitute the first or *prime cost* of manufacturing.

Manufacturing Expenses. All other costs of manufacturing are called manufacturing or factory expenses. They include unproductive labor, already explained, factory supplies, as, oil, grease, waste, etc., fuel, light, and power, including the wages of engineers and firemen, repairs to machinery, tools, and equipment, rent of factory, etc. All of these are regularly charged from month to month or from week to week as the expenditure is made. It includes also such a part of the charges for taxes, insurance, expenses of delivery equipment, etc., as pertain to the manufacturing part of the business. It also includes proper depreciation on machinery, tools, equipment, and on the building used for factory purposes, if owned. These depreciation charges are usually made at the time statements are made but by some factories are made monthly whether statements are made or not. It also includes the pro rata share of the cost of patents as well as a proper charge for patterns that have depreciated, are worn out, or are obsolete.

These manufacturing expenses are also called factory expenses or factory overhead.

The prime cost plus the manufacturing expenses equals the *manufacturing cost*, also called the *factory cost* or the *cost of production*.

The Sales Department. The goods when manufactured are turned over to the Sales Department. They are stored in warehouses and are in charge of a stock clerk. These warehouses are usually known by letters or numbers and a separate stock record kept for each one. In this stock record of finished goods, the proper stock record is debited for all stock received from the factory. When goods are to be shipped, an order is received to ship stock. This is entered under the proper stock number as a credit to that stock account. The balance is then found and extended into a balance column. This constitutes a perpetual

inventory book for finished goods. If a separate book or sheet is kept for each warehouse, there must also be columns for *Transfers from Other Warehouses* and *Transfers to Other Warehouses.* The balance on hand should be checked up with an actual count whenever the quantities become low, or may be checked at periodical intervals, such as, monthly.

Selling Expenses. In order to run the Sales Department, certain expenses are necessary. The selling expenses of a manufacturing business differ little from the trading expenses of a mercantile business. They include such expenses as advertising, salesmen's salaries, traveling expenses, branch office expenses, agency expenses, freight on goods sold, incidental selling expenses, and the proper share of delivery expense, and of insurance and taxes on finished goods.

The manufacturing cost plus the selling expenses make the *selling cost* of the goods manufactured.

General or Administrative Expenses. These expenses include all expenses that are necessary expenses of running the office, such as, salaries of officers and of the office force, office supplies, telephone and telegrams, stationery and printing, etc. It also includes auditors' and lawyers' fees, corporation taxes, interest, depreciation on furniture and fixtures, and any other expense that is not a manufacturing or a selling expense.

The selling cost plus the general expenses make the *total cost.*

Discounts. There remain two elements, one of cost, the other of income, that have not been explained. They are *discount on sales* and *discount on purchases.* Bookkeepers and accountants have never agreed on the proper treatment of these two elements. Some class both as general elements; others, consider discount on purchases a deduction from the cost of the raw material, making it a part of the manufacturing division, and discount on sales a deduction from the sales, making it a part of the selling division. In this Manufacturing Set, discount on purchases will be considered as a *general* income and discount on sales a *selling* element.

Discount on Sales. This discount is necessary because of competition and because of trade customs. Most businesses must give the discounts whether they wish to or not if other businesses with which they are in competition give them. For these reasons, discount on sales will be considered a deduction from sales, a part of the selling division.

Discount on Purchases. This will be considered a part of the general division. Discount on purchases is a result of the business having sufficient working capital on hand to take advantage of the best offers. Good discounts may be secured and yet the business may not be able to take advantage of them because there is not sufficient cash to do so. Or, the business may borrow money in order to take advantage of its discounts. The interest charge for the use of the money is a loss in the general division that would offset a part of the profit from the discount on purchases.

CHAPTER XXXVI

THE VOUCHER SYSTEM OF ACCOUNTS

A Voucher, in the ordinary business sense, is a truthful exhibit of a business transaction. As the word is used in this connection, it has a more restricted meaning. It refers to a printed form that shows an indebtedness incurred and the authority for paying the indebtedness. It usually includes a number of other things that will be explained later.

The first characteristic of the voucher system is the printed voucher. This voucher contains a record of the purchase taken from the invoice or bill or a statement of the services for which the voucher is issued, if no bill or invoice is received. It contains in addition several ruled places for the signatures of different persons who are authorized to approve the voucher. There are usually places for the approval of the buyer, the superintendent or manager, the auditor, and that of some executive officer, such as, the president, vice-president, or secretary. This form is, for this reason, a very good one for corporations, as it provides the corporation with a sufficient check on the acts of its agents. It is used also by partnerships but not so commonly except in large businesses.

The payment of the voucher must be considered with the voucher itself. The old form of the voucher contained besides a record of the indebtedness, a receipt, and a check attached by a perforation. But this was a bulky paper and is not used to any extent. The voucher with the receipt attached is still used to a considerable extent. It is illustrated on page 321. The check is an ordinary check numbered consecutively and also containing the same number as the voucher for which it is given in payment.

Many other forms have come into use. The best one as an exhibit of an indebtedness and the payment of it is the combined voucher and check in one paper. In this form, the invoice, the bill, or the record of the services is recorded on the face of the voucher with the signatures of those approving the voucher. The voucher is folded lengthwise, a check form is printed on one side of the back and a place for indorsements on the other side. When the check is filled out in payment of

VOUCHER WITH RECEIPT ATTACHED

Voucher No. 285 Milwaukee, Wis., Jan. 15, 19—

The Stein Lumber Co.

To Minter Lumber Co. Dr.
Minneapolis, Minn.

Terms: Acct. 30 da

	10	M ft. Clear Oak	78 50			785 —

Correct C. N. D. Auditor

Approved J. C. Stein Pres. C. D. Drew Treas.

$ 785 00 Minneapolis, Feb. 12, 19—

Received of THE STEIN LUMBER CO.

Seven hundred eighty-five — Dollars

in full of above account.

Minter Lumber Co.
Per A. L. N.

the voucher and indorsed by the payee it becomes a receipt in full for the voucher on its face. This furnishes the best possible voucher of an indebtedness and its payment. The only objection to it is that the check to be deposited is a double sheet and is, for that reason, a little harder to handle than the ordinary check.

Because this form is rather bulky to handle, many firms prefer to use a check that is not written on the back of the voucher. The voucher itself is sometimes not returned when the form without the check is used. To avoid both of these objections, some firms prefer to make out the voucher in the usual way but to keep it on file. With the check, attached by a perforation, a memorandum of the indebtedness is sent. Before depositing the check, this memorandum is torn off. If the check is not for the correct amount, the memorandum and the check are returned to the sender. If it is correct, it is deposited in the usual way. On the back of the check on the left hand end a statement similar to the following is printed: "No receipt is necessary. The indorsement of this check constitutes a receipt in full. If it is not correct, return it unchanged."

A voucher check of a different kind is used with or without the other features that accompany the voucher system. It is a check that contains a short statement of the indebtedness for which the check pays. This statement may be in the lower left hand corner of the face of the check or on the left hand end just above the place for indorsements. In either form there

VOUCHER STUB

No. 478
Date March 5, 19—
To N. L. Paxton & Co.
Amount $ 1125.00
Discount $ 22.50
Amount Paid $ 1102.50
Date Paid March 12, 19—

Charge	Amount
Sundry Accounts	
Manufacturing Costs	
Material Purchases . . .	1125—
Freight In	
Productive Labor	
Fuel, Light and Power . .	
Unproductive Labor . . .	
Supplies	
Selling Expenses	
Salesmen's Salaries . . .	
Salesmen's Trav. Ex. . .	
Advertising	
Shipping	
Delivery Expense	
General	
Office Salaries	
Misc. Office Ex.	
	1125—

is a statement on the back above the place for indorsements similar to the one on page 324.

The Voucher Stub. The voucher is usually attached to a stub which contains details of the voucher as well as a list of the principal accounts

FACE OF COMBINED VOUCHER AND CHECK

Voucher No. 478

C. L. Lowe Company

Chicago, Ill., March 5, 19—

To N. L. Paxton & Co. Dr.

Saginaw, Mich.

Terms: 2/10, n/30

12	Mft. Oak Lumber	75.00	900 —		
5	" " Maple "	45.00	225 —		
			1125 —		
	Less 2%		22 50	1102 50	

C. L. Lowe
President

D. N. Norton
Auditor

of the business to which the different items of the voucher are dis-

BACK OF COMBINED VOUCHER AND CHECK

First National Bank

Voucher No. 478 **Chicago, Ill.,** March 12, 19—

Pay to the order of N. L. Paxton & Co. — **$** 1102 50/100

Eleven hundred two and 50/100 — **Dollars**

In full payment of the account as shown on the reverse side of this Voucher Check.

C. L. Lowe Co.

By D. G. Lowe
Treasurer

BACK OF VOUCHER CHECK WHEN NO VOUCHER STATEMENT IS USED

In settlement of the following bills:

19— Feb.	3	Mdse.	175 80		
	18	"	216 40		
			392 20		

No receipt is necessary. The indorsement of this check is a receipt in full. If the check is not correct, return it unchanged.

tributed. This facilitates the making of the entry for the voucher. The voucher stub is illustrated on page 322 in connection with the combined voucher statement and check.

The Voucher Record. Another important feature of the voucher system is the use of a voucher record as a book of original entry. It is more than a purchase book, because it contains in addition to a record of purchases, a record of all other indebtedness incurred. It also contains distributive columns corresponding to the principal accounts listed on the voucher stub. This makes it possible to classify the principal accounts into manufacturing, selling, and general. It also eliminates a great deal of posting as much of the posting from this book can be done in total. (See illustration on pages 326 and 327.)

The voucher record is used for all indebtedness incurred, except petty cash items, which are entered in total at certain regular intervals. The effect of an entry in the voucher record is in each case a credit to Vouchers Payable and a debit to the account or accounts represented by the column or columns in which the amounts are distributed. If an account is to be debited for which a special column is not kept, the name of the account is written in the Sundry Accounts column, and posted daily. This is true of such accounts as Notes Payable, Real Estate, Delivery Equipment, Furniture & Fixtures, etc.

Nothing is posted from the voucher record *daily* except the accounts in the Sundry Accounts column. These accounts are posted to the debit daily. The total of the Vouchers Payable column is posted monthly to the credit of the Vouchers Payable account and the totals of the other amount columns, except the Sundry Accounts column, are posted to the debit of the respective accounts named at the head of the column. The method of closing the voucher record is shown in the illustration on pages 326 and 327.

How to Enter Vouchers. A voucher is made out for every indebtedness incurred. It is entered in the voucher record as soon as it is made out, the distribution being made from the voucher stub. If it is a cash voucher, a check is made out at once. The voucher and check are torn from the stub and sent to the party to whom payment is to be made. If the voucher is not yet due, it is made out in the usual way and entered in the voucher record, but is not torn from the stub. When payment is made, the voucher and check are torn from the stub and sent to the party to whom payment is to be made.

Whenever payment is made, the Date Paid column of the voucher record is filled in with the date of payment.

Most vouchers are paid in cash, but some are paid wholly or partly by giving a note or mortgage. In that case a J is placed before the date in the Date Paid column.

Purchase Ledger Eliminated. The voucher record eliminates the

VOUCHER

VCH. NO.	DATE	NAME	ADDRESS	TERMS	DATE DUE	DATE PAID	VCHRS. PAYABLE	SUNDRY ACCTS F	SUNDRY ACCTS ACCT.	SUNDRY ACCTS AMT.	MANU-MAT-ERIAL PUR.
	19—	*Forward*			19—	19—	12848—			416 25	7386 50
585	June 28	*J. C. Connell*	*Grand Rapids*	*2/10,n/30*	*July 8*		1718 20				1718 20
586	29	*C. Frey & Co.*	*City*	*Cash*	*June 29*	*June 29*	125 50	9	*Ins.*	125 50	
587	29	*Hall Adv. Co.*	*City*	*n/30*	*July 29*		375—				
588	30	*C. Harris*	*Petty Cash*	*Cash*	*June 30*	*June 30*	21 50				
589	30	*D. Jones*	*Pay Roll*	*Cash*	*June 30*	*June 30*	3813—				
							(12)			√	(18)
							18901 20			541 75	9104 70

purchase ledger as accounts are not opened up for creditors. The entry to record the purchase corresponds to a credit to the account and the record in the Date Paid column corresponds to the debit to the account. Where it is desired to keep accounts with certain creditors, the business may do so. In that case, they are memorandum accounts to give additional information and are not a necessary part of the accounting system.

The Cash Book. The cash book of a voucher system need not differ much from the cash book of an ordinary mercantile business,

CASH RECEIPTS

DATE 19—		F	ACCOUNT	EXPLANATION	GEN.	ACCTS. RECEIV-ABLE	DISC. ON SALES	IN-TEREST DR.	NATIONAL EXCH'GE BANK DR.
May	25		*Forward*		4726 35	5216 20	79 85	20 50	9842 20
	26	16	*J. C. Dreher*	*Inv. of 4/26*		316 25			316 25
	27	20	*C. L. Loring*	*Inv. of 5/18, 3%*		436 45	13 09		423 36
	29	18	*Notes Rec. Disc.*	*M. E. Irwin's note*	575—				
	29	22	*Interest*	*60 da. on above*	5 75			1 94	578 81
	30	15	*Newton & Co.*	*Inv. of 5/20, 2%*		625—	12 50		612 50
	31	17	*Notes Payable*	*Our note disc.*	1000—			5—	995—
					6307 10	6593 90	105 44	27 44	12768 12
	31		*Balance, May 1*		2157 25				2157 25
					4149 85	6593 90	105 44	27 44	10610 87
	31	√	*General Cr.*		4149 85				
	31	16	*Accounts Receivable Cr.*		6593 90				
	31	28	*Disc. on Sales Dr.*						105 44
	31	29	*Interest Dr.*						27 44
	31	14	*National Exchange Bank Dr.*						10610 87
					10743 75				10743 75
	31	√	*Bank Dr.*						12768 12
									12768 12
June	1		*Balance*	*In Bank*	3843 32				3843 32

RECORD, JUNE 28-30, 19—

FACTURING COST				SELLING EXPENSES					GEN. EXPENSES	
FRT. IN	PRODUCTIVE LABOR	MANUFACTURING EXPENSES: Fuel, Light and Power	Unproductive Labor	Supplies	SALESMEN'S SALS.	SALESMEN'S T. EXP.	ADVERTISING	SHIPPING	DELIVERY EXP.	OFFICE SALARIES	MISC. OFFICE EXP.
35—	4340 80	312 20	95—	64 50		75—		60—	15 25		47 50
							375—				
									7 85		13 65
	3044 25	120—	173 75		150—			70—	80—	175—	
(18)	(19)	(20)	(21)	(22)	(24)	(24)	(25)	(25)	(26)	(26)	(27)
35—	7385 05	432 20	268 75	64 50	150—	75—	375—	130—	103 10	175—	61 15

such as that illustrated in Set VII, except that the entries on the Cash Payments are recorded in a different way. In the entry on the Cash Payments, the number of the voucher paid is more important than the name of the person to whom payment is made or the purpose for which payment is made. These have been fully shown in the entry in the voucher record. For these reasons, the voucher number is written first, followed by the name of the person to whom payment is made. Nothing is posted daily from the Cash Payments, but the columns are posted in total.

CASH PAYMENTS

DATE 19—		F	VOUCHER NUMBER	TO WHOM PAID	VOUCHERS PAYABLE	DISCOUNT ON PURCHASES	NATIONAL EXCHANGE BANK CR.
May	25		Forward		6127 15	121 75	6005 40
	26	√	V. No. 385	D. Janis & Co.	412 30	8 25	404 05
	27	√	437	Auto Supply Co.	21 25		21 25
	28	√	438	D. May, Cashier	24 35		24 35
	29	√	372	Bell Adv Co.	172 50		172 50
	30	√	439	D. Wendt	125—		125—
	31	√	440	D. May, Cashier	2172 25		2172 25
					9054 80	130—	8924 80
	31	17	Vouchers Pay.	Dr.	9054 80		
	31	28	Disc. on Purc	hases Cr.			130—
	31	14	National Exch	ange Bank Cr.			8924 80
					9054 80		9054 80
May	31	√	Bank Cr.				8924 80
	31		Balance	In Bank (red ink)			3843 32
							12768 12

Many firms prefer to keep an account with the bank in the cash book. This is posted monthly. All cash is received and deposited daily, with the sum of the amounts received carried to the Bank column of the Cash Receipts daily. For each check written, the amount is carried to the Bank column of the Cash Payments. The daily posting of the Cash Receipts is the same as in Part III. The proper method of closing the cash book is illustrated in the cash book shown on pages 326 and 327.

The Journal. The four-column journal, consisting of the following amount columns, will again be used: Vouchers Payable, General Dr., General Cr., and Accounts Receivable.

The Petty Cash Book. A petty cash book will be used for petty cash payments. A fund of a definite sum, $50, for example, is given to some one who is to make small payments for which checks are not issued. When he makes a payment, he records it in a Petty Cash Book under the proper heading. At periodical intervals, for example, weekly, he makes a report to the general bookkeeper of his expenditures, properly classified. Suppose the sum is $26. A voucher is then made out for this amount to bring his fund up to the original amount again. It is entered on the Cash Payments as *Voucher No.—, Cashier, $26.* On the voucher record it is properly distributed to the accounts affected. This is called the *Imprest System.*

Voucher Record Proof. At the end of the month before the totals of the voucher record are posted, the sum of the Vouchers Payable column should equal the sum of the distributive columns. After the totals have been posted from all the books, a schedule of the vouchers unpaid should be made and the total found. This total should agree with the balance of the Vouchers Payable account.

The Vouchers Payable account should show a credit from the voucher record and debits from the cash book and journal. If the balance of the Vouchers Payable account does not agree with the sum of the unpaid vouchers, the paid vouchers must be checked with the payments in the cash book and journal. The vouchers unpaid should also agree with the vouchers attached to the stubs in the book of vouchers.

CHAPTER XXXVII

MANUFACTURING

SET IX

Transactions for January

Selling Price List

NO.	KIND	PRICE
205	Galvanized Refrigerator	$ 4.35
210	" "	5.25
215	" "	7.45
220	" "	8.85
225	" "	9.50
250	" "	10.85
255	" "	11.65
260	" "	12.85
315	Enameled "	9.05
320	" "	10.35
325	" "	11.15
350	" "	12.75
355	" "	13.95
360	" "	15.25
450	Porcelain "	19.85
455	" "	23.35
460	" "	26.25
150	Kitchen Cabinet	11.35

The Objects of this set are to illustrate the voucher system of accounting for a corporation doing a manufacturing business, and to make the student familiar with the accounts of a manufacturing business.

The Books of Entry will be the *sales journal*, the *cash book*, the *special-column journal*, the *voucher record*, and the *petty cash book*. Two ledgers will be used, the *general* and the *sales ledgers*. The use of each of these books has been fully illustrated and explained in the previous chapters.

Outgoing Papers. The student has been given sufficient drill in

the making out of the ordinary business papers. He has also had sufficient drill in the use of the incoming papers. In this set, nothing but vouchers need be made out. When a sale is made, an invoice is supposed to be made out in duplicate. If the teacher desires, the outgoing invoices may be made out. For posting purposes, the entry is made in the sales journal. All vouchers are made out as illustrated in Chapter XXXVI and handled as there illustrated. *Sign all voucher checks for the treasurer by your name underneath.*

TRANSACTIONS

January 2. B. C. Ecker, D. E. Rowland, C. B. Roberts, and H. A. Maxwell have decided to organize a corporation under the name of the Ecker Manufacturing Co. The capital stock is to be $50000 divided into 500 shares of the par value of $100 a share. The purpose of the corporation shall be the manufacture and sale of refrigerators, kitchen cabinets, and other furniture.

The incorporators have subscribed for stock as follows:

B. C. Ecker, 150 shares
D. E. Rowland, 100 shares
C. B. Roberts, 75 shares
H. A. Maxwell, 50 shares

The rest of the stock is unsubscribed.

The necessary steps have been taken to incorporate under the laws of the state of Wisconsin, and a certificate of incorporation has been received from the Secretary of State.

The incorporators have elected themselves members of the board of directors. The directors have elected the following officers: B. C. Ecker, President; C. B. Roberts, Secretary; H. A. Maxwell, Treasurer.

The student is employed to act as bookkeeper and cashier at a monthly salary of $80.

The secretary has instructed you to make memorandums in the journal to record the organization of the corporation, the subscription of the stock, the election of the board of directors, and of the officers.

Make an entry in the journal to record the organization of the corporation, with a list of the subscribers and the details of the number of shares subscribed by each.

Remember that Capital Stock must be credited for the authorized capital stock and that Subscriptions cannot be debited for any more than the total amount subscribed.

In most states, only a part of the capital stock must be subscribed for and paid in before the corporation may do business.

The subscribers have paid their subscriptions as follows: B. C. Ecker, 150 shares, $15000; D. E. Rowland, 100 shares, $10000; C. B. Roberts, 75 shares, $7500; H. A. Maxwell, 50 shares, $5000.

Make an entry in the cash book showing the details of the cash received.

Deposit all cash received in the National Exchange Bank. Show this by carrying the amount received over to the Bank column of the cash book.

Daily all the cash received is supposed to be deposited in the bank and the amount of the deposits for that day are carried to the Bank Deposits column of the cash book.

By action of the board of directors recorded on page 5 of the Minute Book, the corporation has purchased land and a factory building located at 1232-8 North Avenue, Milwaukee, from the Peters Manufacturing Company, for $20000 cash. The land is appraised at $6000 and the building at $14000.

Take your book of vouchers and fill in the stub and the voucher. Under Sundry Accounts in the distribution write, Real Estate: Land, $6000; Buildings, $14000. Tear the voucher from the stub, fold it lengthwise, and write out the check on the back in payment. Number both the voucher and the check, No. 1.

Enter the voucher in the voucher record. Under Sundry Accounts write the distribution given on the voucher stub. Use but one line for this voucher. Study the form of the entry as illustrated on pages 326 and 327.

Enter the payment of this voucher in the Date Paid column of the voucher record and make the entry in the cash book.

Post all the entries that should be posted. Open accounts in the general ledger, as follows:

ACCOUNT	PAGE
Capital Stock	1
Subscriptions	1
Unsubscribed Stock	1
Surplus	2
Real Estate	2
Machinery	2
Tools and Equipment	3
Delivery Equipment	3
Furniture and Fixtures	3
Patents	4
Notes Receivable	4
Accounts Receivable	4
C. D. Masters, Salesman	5
Inventory, Raw Material and Finished Goods	5
Petty Cash	5
National Exchange Bank	6
Mortgages Payable	6
Notes Payable	6

ACCOUNT	PAGE
Vouchers Payable	7
Notes Receivable Discounted	7
Reserve for Depreciation, Buildings	7
Reserve for Depreciation, Machinery	8
Reserve for Depreciation, Tools and Equipment	8
Reserve for Bad Debts	8
Material Purchases	9
Freight In.	9
Productive Labor	9
Fuel, Light and Power	10
Factory Supplies	10
Unproductive Labor	10
Repairs to Machinery, Tools and Equipment	11
Repairs to Building	11
Refrigerator Sales	11
Kitchen Cabinet Sales	12
Salesmen's Salaries	12
Salesmen's Traveling Expenses	12
Advertising	13
Shipping Expense	13
Delivery Expense	13
Discount on Sales	14
Office Salaries	14
Miscellaneous Office Expense	14
Insurance	15
Collection and Exchange	15
Interest	15
Discount on Purchases	16
Accrued Asset Inventories	16
Accrued Liability Inventories	16
Manufacturing	17
Selling	18
Profit and Loss, one-half page	19
Dividend	19
Reserve for Accidents	19

Open accounts in the sales ledger, as follows:

ACCOUNT	PAGE
C. N. Noble	20
C. L. Yoder	20
L. C. Prey & Co.	20
J. A. Dreher & Co.	20
B. E. Derby	20
C. O. D. Account	20

ACCOUNT	PAGE
D. E. Bolting	21
C. F. Gorrel	21
J. E. Brock	21
C. L. Voss	21
D. C. Harvey	21
B. N. Rarden	21
C. N. Yahr	22
D. G. Loucks	22
C. D. Caldwell & Co.	22
F. A. Somers	22
N. D. Garvey	22
C. A. McKinney	22
G. A. Bower	22

January 3. Bought an invoice of machinery for the wood working shop and a forge and anvils for the blacksmith shop, from the Hilton Mfg. Co., Milwaukee, for $5750. Terms: n/30.

Fill out voucher stub No. 2 and the voucher. Distribute it under the head of Machinery. Do not tear the voucher from the stub as the voucher is not to be paid at once. Enter the voucher in the voucher record, writing *Machinery* under Sundry Accounts. Do not mark it paid nor make an entry in the cash book.

Bought an invoice of tools and hardware from the Ball Hardware Co., Milwaukee, Wis., as follows: Tools, $457.50; hardware, $212.75. Terms: n/10.

Make out the voucher stub and the voucher but do not detach the voucher. Make an entry in the voucher record. In the Materials column write, *$212.75.* In the Sundry Accounts column on the same line, write, *Tools, $457.50.* Put the total amount of the invoice in Vouchers Payable column.

Bought an invoice of lumber from the Mann Lumber Co., Oshkosh, Wis., as follows:

15 M ft. Oak Lumber at $75
8 M ft. Ash Lumber at $41.50
5 M ft. White Pine Lumber at $35

Terms: 2/10, n/30.

Each time an indebtedness is incurred, except for small items of petty cash, you must fill out a voucher stub, a voucher, and make the entry in the voucher record, without special instructions. If the voucher is a cash voucher, you must also write out the check, fill in the date paid on the voucher record, and make an entry in the cash book.

The lumber purchased is to be used in the manufacture of refrigerators. Charge it to Material Purchases.

Pay the freight on this invoice of lumber by voucher check in favor of the C. & N. W. R. R. Co., $147.50.

This requires a voucher and an entry in the voucher record just as much as if goods had been purchased, as it is an indebtedness incurred.

Post all items that should be posted daily without further instructions.

January 5. C. D. Perkins has been engaged as manager of the factory at a salary of $150 per month. Workmen have been employed for the different operations in the factory. The details of each workman's work and his wages would be kept on a time sheet or on time cards. No memorandum is necessary. Make a memorandum of the employment of C. D. Perkins as manager.

The corporation finds it necessary to have on hand a sum of money from which small cash payments may be made. The Student is to be given a petty cash fund of $50 for this purpose. Entries for receipts and payments from this fund will be made in a *petty cash book.* Weekly the Student will report the expenditures to the treasurer and be given a check for the total amount expended so as to bring the fund up to $50 again.

Make out a voucher in favor of yourself for $50 and charge it to the Petty Cash fund in the Sundry Accounts column. Enter it to the debit of cash in the petty cash book.

Bought of the Western Coal Co., 50 tons Steam Coal at $4.45. Terms: n/30. Make the proper entry for this transaction as directed in previous transactions.

January 6. It was found necessary to make some alterations in the building to make it suitable for the machinery and equipment. The roof was thought to be in good condition when the building was purchased but it was found that it needed repairs. The Logan Construction Co. has done the work and presented a bill for work as follows: Alterations to factory building, $120.75; repairs to roof of factory building, $17.50.

Pay this bill by voucher check.

Are both of these items charges to the same account? The alterations are made necessary to fit the building for the company's use. The other item is made necessary because the building is not in as good condition as it was thought to be. Use but one line but use two distribution columns.

Bought a bill of office books and stationery from H. H. Miller & Co., City, as follows: 1 Cash Book, 300 pages, $3.50; 1 Journal, 150 pages, $2; 1 Voucher Record, 300 pages, $8; 1 Ledger Binder, $9; 1 Sales Binder, $3; 500 ledger sheets, $1.50; 500 sales sheets, $2.

Pay this bill by voucher check.

Bought incidental office supplies for cash, $8.50.

This should be entered in the petty cash book only.

January 7. Bought an invoice of galvanized iron and mineral wool from the National Iron Co., City, amounting to $718.25, on the terms, 2/10, n/30.

The Andree Electric Co. presents a bill for wiring and connecting

the machinery, etc., as follows: Wiring, $25.75; Lamps, $15.05.

Pay this bill by voucher check. Charge it to Tools and Equipment.

Bought an invoice from the Patton Paint Co., Chicago, as follows: 25 gal. Stain at $1.75; 25 gal. Varnish at $2.35; 10 gal. White Enamel at $2.05. Terms, n/30.

Pay a freight bill of the C. M. & St. P. R. R. Co. by voucher check, $12.75. This bill is for the invoice of paints just received.

Took out an insurance policy in the Phoenix Insurance Company, for one year, on the building, machinery, tools, and equipment, and on any raw material and finished goods on hand, as follows: Building, $9500; Machinery, $4000; Tools and Equipment, $400; Raw material, $1500; and Finished goods, $2000.

Pay the premium by voucher check in favor of H. M. Russell & Co., at the rate of 75¢ for each $100 of the risk.

January 8. Pay cash for telegrams, 75¢; sundry office supplies, $4.75.

Bought a motor truck from the Davidson Motor Co. for $1750. Pay for it by voucher check.

Entered into a contract with the Hall Advertising Co. to advertise our line of Economy refrigerators, for $1500, with the privilege of placing as much each month as is found necessary. Terms: 3% for cash, n/60.

Pay the bill by voucher check. Deduct the discount on the voucher and write the check for the net amount. Do not enter the discount in the cash book.

Insured the motor truck in the Mutual Insurance Co., for $1400, for one year, at the rate of 65¢ for each $100.

Pay for it by voucher check in favor of D. Evans Insurance Co.

Bought an invoice of zinc from the A. R. Hansen Co., Chicago, per itemized bill amounting to $736.45. Terms: 2/10, n/30.

January 9. The Broadway Printing Co. has just delivered 1000 catalogs to advertise the line of refrigerators the corporation is manufacturing. This is a cash bill for $175.

Pay it by voucher check.

C. D. Masters has been hired as traveling salesman at a salary of $150 per month and expenses, to begin January 10.

Give him a voucher check for $100 for traveling expenses. Charge it to C. D. Masters, Salesman. This is to be treated as an advance fund to him. When he reports his expenditures for traveling expenses, he will be given a check for the amount expended. The $100 is, therefore, a permanent fund which is like petty cash, and remains the same on the books.

Bought supplies for the factory of the Sanders Supply Co., City, as follows: Machine oil, $8; waste, $2.

Pay this bill by voucher check.

January 10. Bought of C. Shaw & Co.: 1 Combination Desk, $36; 3 Office Chairs, $15; 1 Underwood Typewriter, $100; 1 Filing Cabinet, $27.50.

Pay the bill by voucher check.

The A. N. Miller Co. has manufactured to our order 300 porcelain linings for refrigerators: 150 at $5.25; 100 at $7.50; 50 at $9.25. Terms: 1/10, n/30.

Bought of the Parker Auto Co., 100 gal. gasoline at 12¢. Pay for it by voucher check.

Find the sum of your petty cash payments to date according to the accounts affected. Balance the petty cash book.

Make out a voucher check in your favor for the expenditures from the Petty Cash fund. Enter it in the voucher record as paid and on the payments side of the cash book. The voucher check is cashed and the amount is entered as cash received in the petty cash book.

January 12. The management has decided to manufacture three kinds of refrigerators, graded as to the interior finish, the kind of wood used in the box, and the size. The refrigerators with galvanized iron lining will be numbered in the 200's; the enameled refrigerators, in the 300's; and the porcelain-lined, in the 400's. The second and third numbers indicate the size and kind of box, as, 225, a galvanized iron refrigerator, with an oak box, size, 48 in. by 28 in. by 12 in.

The selling prices of the different kinds of refrigerators are given at the beginning of this set, on page 329. Copy this selling price on a sheet of heavy paper or cardboard and place it in your envelope of supplies.

The directors, a few days ago, decided to take subscriptions for the remainder of the stock. Subscriptions have been received as follows: L. N. Norris, 50 shares; C. A. Willis, 50 shares; L. E. Falch, 25 shares.

Make the entry in the journal. Make your entry include details of the subscription.

C. N. Noble, St. Paul, Minn., orders:

12	Galvanized	Refrigerators	No. 215
15	"	"	No. 225
10	"	"	No. 250

Terms: 2/10, n/30.

Fill the order. In this set the invoice may be made out in the usual way and sent to the customer. It is supposed that a duplicate is made out at the same time and kept on file for reference. The sales journal will contain sufficient information for posting purposes, without details of the sales. Few modern business systems copy the sales in a sales book. In most systems, the posting is done either from the duplicate

invoice, or from the order sheet, as in Set VII, or from a sales journal, as in this set. For each sale, make out the invoice or not, as the teacher directs, and make the entry in the sales journal, omitting the items sold. Use the first amount column only.

Posting the Sales Journal. In posting the sales journal, it is of great advantage to the bookkeeper to have the customer's account show the terms of each sale. When you post to the sales ledger in this set put the terms of sale in the explanatory column of the customer's account.

January 13. Pay the invoice of the Ball Hardware Co. by check.

When an invoice that was purchased at some previous date is to be paid, the following steps should be taken:

1. From the voucher record, find the number and amount of the voucher.

2. Refer to your book of vouchers to the proper number. Compare the amount with the amount in the voucher record. If a discount is allowed, subtract it on the voucher. Do not change the amount in the voucher record.

3. Tear the voucher from the stub, and write out the check.

4. Write the date of payment in the voucher record.

5. Enter the payment on the cash payments. If there is a discount, the amount of the invoice before the deduction is made is placed in the Vouchers Payable column, the discount is put in the Discount on Purchases column, and, the net amount, the amount of the check, is put in the Bank Cr. column.

Pay the invoice of the Mann Lumber Co. by check.

Treat this the same as the previous transaction. In this set, the pupil will not be told whether there is a discount to be deducted or not. His records of both purchases and sales must be so kept that he can tell from his books whether a discount should be deducted or not.

C. L. Yoder, Peoria, Ill., orders:

8 Galvanized Refrigerators No. 210
12 " " No. 255
15 Enameled " No. 320

Terms: 2/10, n/30.

Fill the order and make the entry like the transaction on the 12th.

Are you posting daily? Do not forget to post this last transaction so that your ledger account will show the terms of sale.

January 14. Bought an invoice of lumber from the Moore Lumber Co., Minneapolis, as follows:

12 M ft. Oak Lumber at $73.75
6 M ft. Ash Lumber at $40.85
3 M ft. Pine Lumber at $34.60

Terms: 1/10, n/30.

Pay freight on this shipment of lumber by voucher check in favor of C. & N. W. R. R. Co., $147.60.

L. C. Prey & Co., Keokuk, Iowa, order:

20	Enameled	Refrigerators	No. 315
15	"	"	No. 320
12	"	"	No. 355
6	Porcelain	"	No. 450

Terms: 2/10, n/30.

J. A. Dreher & Co., Ft. Wayne, Ind., order:

8	Galvanized	Refrigerators	No. 260
12	Enameled	"	No. 320
15	"	"	No. 355

Terms: n/30.

Pay cash for pencils, pens, and miscellaneous office supplies, $2.25.

January 15. B. E. Derby, Columbus, Ohio, orders:

6	Galvanized	Refrigerators	No. 215
10	"	"	No. 225
24	"	"	No. 250
18	Enameled	"	No. 320
12	"	"	No. 355

Terms: One half cash; balance in 30 days. Cash is received for one-half of the invoice.

D. C. Harvey, Appleton, Wis., orders:

12	Galvanized	Refrigerators	No. 220
15	"	"	No. 250

Terms: draft with B/L attached.

Make no entry for the draft till it is reported collected.

The subscribers to the stock of the corporation, as recorded on the 12th, have paid in the amount of their subscriptions, and have been given certificates of stock.

Show the details in the entry.

January 16. Bought of the Janes Lumber Co., Manistee, Mich.: 6 M ft. Hemlock Lumber at $27.50. Terms: n/30.

Pay cash for a want advertisement for skilled workmen for the factory, $1.55.

D. E. Bolting, Muskegon, Mich., orders:

15	Enameled	Refrigerators	No. 320
8	"	"	No. 355
5	Porcelain	"	No. 450

Terms: 2/10, n/30.

Bought machinery from the Case Machinery Co., Racine, Wis., for $896.50. Terms: n/15.

Pay the freight on this bill of machinery by voucher check in favor of C. M. & St. P. R. R. Co., $18.75.

Since a machine is of no value to the business until it is set up in the factory, it is correct to charge the freight on machinery and any other necessary cost before the machine is ready to operate, to the asset account.

January 17. C. F. Gorrel, Pittsburg, Pa., orders:

9 Enameled Refrigerators No. 325
12 " " No. 360

Terms: draft, 30 days after date.

Make no entry for the draft till it is reported accepted.

Pay the National Iron Co. for the invoice of the 7th.

Refer to the instructions for a similar transaction on January 13.

Pay the A. R. Hansen Co. for invoice of the 8th.

Are you extending the amount of each check into the Bank column? Have you marked the voucher paid in the voucher record?

The manager hands you the pay roll for the last two weeks, with totals to be charged as follows:

Skilled workmen and helpers	$ 996.50
Engineer and fireman	80.00
Foremen	130.00
Unskilled workmen	40.00
Shipping clerk and helpers	95.00
	$1341.50

Make a voucher check for the pay roll in favor of yourself as cashier. In entering it in the voucher record, distribution must be made in accordance with the elements of cost explained in Chapter XXXV. Use but one line in the voucher record and distribute the pay roll amounts. You should use the distributive columns for Productive Labor, Unproductive Labor, Fuel, Light and Power, and Shipping.

The salaries of the office force and of the deliveryman will be paid monthly.

Issue a voucher check to yourself for the petty cash expenditures for the week. Refer to a similar transaction on January 10. Balance the petty cash book. Enter the amount received in the petty cash book.

January 19. J. E. Brock, Cleveland, Ohio, orders:

10 Galvanized Refrigerators No. 215
15 " " No. 255
6 " " No. 260
12 Enameled " No. 350

Terms: n/30.

He has asked us to ship this order to D. Petry, Canton, Ohio, and to pay the freight for him. Pay the freight by voucher check to the C. & N. W. R. R. Co., $20.75. Charge it to the buyer. You must post this item from the voucher record twice, to the debit of the customer's account in the sales ledger and also to the debit of Accounts Receivable

in the general ledger. In the Sundry Accounts column of the voucher record write the name of the customer and put Accounts Receivable in parenthesis. Add the freight on the invoice.

C. L. Voss, Detroit, Mich., orders:

22	Enameled	Refrigerators	No. 350
16	"	"	No. 355
5	Porcelain	"	No. 455
3	"	"	No. 460

Terms: n/30.

D. E. Bolting reports one porcelain refrigerator No. 450 broken and damaged in transit. Allow him credit for it at the selling price.

January 20. C. N. Noble, St. Paul, Minn., orders:

8	Galvanized	Refrigerators	No. 215
12	"	"	No. 220
18	"	"	No. 255

Terms: 2/10, n/30.

C. L. Yoder, Peoria, Ill., orders:

15	Enameled	Refrigerators	No. 325
10	"	"	No. 355
12	"	"	No. 360
6	Porcelain	"	No. 460

Terms: 2/10, n/30.

Pay the A. N. Miller Co. for invoice of the 10th.

The bank reports the sight draft on D. C. Harvey collected. Pay the collection charges in cash, 30¢.

January 21. Received the acceptance of our 30-day draft, on C. F. Gorrel, for $283.35, for invoice of January 17.

Bought an invoice of galvanized iron from the Eiring Iron Co., City, amounting to $897.25. Terms: 1/30, n/60.

D. C. Harvey, Appleton, Wis., orders:

16	Enameled	Refrigerators	No. 350
12	"	"	No. 355
6	Porcelain	"	No. 455

Terms: 30-da. draft.

January 22. Received a check from C. N. Noble for invoice of the 12th.

Are you referring to the ledger each time that a check is received to see whether there is a discount or not?

One of the machines has not been working properly. A skilled workman in the factory has repaired it. He has used 12 hours of his time at 50¢ an hour. Make an adjustment entry debiting Repairs to Machinery and crediting Productive Labor.

When the pay roll is made out his entire wages will be charged to Productive Labor. This entry reduces the charge to that account.

Instead of using this method, the pay roll might be divided up and the part that was used for repairs might be charged direct to the Repairs to Machinery account. There is always danger that it will be overlooked or forgotten at that time.

Pay cash for telegrams, 75¢.

B. N. Rarden, Detroit, Mich., orders:

4	Galvanized	Refrigerators	No. 225
8	"	"	No. 255
12	Enameled	"	No. 320
10	"	"	No. 360

Terms: sight draft, less 1%.

Do not deduct the discount in the sales journal.

Pay cash for stamps, $3.

January 23. Received a check from C. L. Yoder for invoice of the 13th.

C. N. Yahr, Dubuque, Iowa, orders:

24	Enameled	Refrigerators	No. 350
12	"	"	No. 360
8	Porcelain	"	No. 450
5	"	"	No. 460

Terms: note at 30 days, with interest at 6%. The note is received with the order.

J. E. Brock, Cleveland, Ohio, orders:

18	Galvanized	Refrigerators	No. 250
16	"	"	No. 260
10	Enameled	"	No. 325
8	"	"	No. 355

Terms: draft, 30 days after date, for $250; balance, on account.

Make no entry for the draft till it is received accepted.

Bought of Pritzlaff Hardware Co., City, an invoice of locks and hinges amounting to $273.85. Terms: 2/10, n/30.

January 24. Pay the Moore Lumber Co. for invoice of the 14th.

Received the acceptance of our 30-da. draft on D. C. Harvey for invoice of the 21st. The acceptance is dated the date of the invoice.

D. G. Loucks, South Bend, Ind., orders:

6	Galvanized	Refrigerators	No. 210
8	"	"	No. 220
15	"	"	No. 225
12	"	"	No. 250

Terms: on account.

Draw a voucher check for the expenditures from the petty cash fund for the past week. Treat this like similar transactions.

Received a check from L. C. Prey & Co. for invoice of the 14th.

January 26. Received the acceptance of our 30-da. draft on J. E. Brock, for $250. The acceptance is dated January 23.

The bank reports the sight draft on B. C. Rarden collected.

Do not forget that the discount must be computed and entered now.

Received a check from D. E. Bolting for invoice of the 16th.

C. L. Voss, Detroit, Mich., orders:

5	Enameled	Refrigerators	No. 320
8	"	"	No. 325
15	"	"	No. 350
24	"	"	No. 355

Terms: n/30.

Pay cash for subscriptions to the following magazines for the use of the office force: The System, $2; The Bookkeeper, $1.50; Journal of Accountancy, $3.

January 27. Inserted a want ad. in the Free Press and paid cash for it, $1.35.

C. N. Yahr reported that one enameled refrigerator No. 360 was badly cracked in shipment. He has been instructed to send it back. Give him credit. Since he has given his note in full payment of this invoice, the credit must be to the account of Notes Receivable, instead of to his personal account.

Pay telephone bill to Feb. 1 by voucher check in favor of the Independent Telephone Co., $9.

Pay cash for a city directory, $5.

January 28. C. D. Caldwell & Co., Atlanta, Ga., order:

15	Galvanized	Refrigerators	No. 250
20	"	"	No. 255
12	Enameled	"	No. 325
18	"	"	No. 350

Terms: 2/10, n/30.

F. A. Somers, Louisville, Ky., orders:

6	Enameled	Refrigerators	No. 355
8	"	"	No. 360
15	Porcelain	"	No. 450
6	"	"	No. 460

Terms: n/30.

Pay cash for Bradstreet's quarterly commercial report, $6.

January 29. Discounted the 30-da. acceptance of J. C. Brock for $250 and the 30-da. acceptance of D. C. Harvey for $511.50. 6% is charged in both cases.

You must make the entries so as to show that the face of the ac-

ceptance is credited, that Interest is debited for the discount, and that the bank is debited for the proceeds. A note or acceptance discounted should be credited to Notes Receivable Discounted to show a contingent liability.

N. D. Garvey, Albany, N. Y., orders:

12	Enameled	Refrigerators	No. 325
6	"	"	No. 350
15	"	"	No. 355
20	"	"	No. 360

Terms: 2/10, n/30.

January 30. C. A. McKinney, Harrisburg, Pa., orders:

12	Enameled	Refrigerators	No. 315
24	"	"	No. 325
32	"	"	No. 355
6	Porcelain	"	No. 450

Terms: 2/10, n/30.

Received a check from C. N. Noble for invoice of the 20th.

Received a check from C. L. Yoder for invoice of the 20th.

C. D. Masters reports his traveling expenses for the three weeks as $65.75. Issue a voucher check to him for his expenses and for his salary for two-thirds of a month at $150 per month.

Pay the Case Machine Co. for the invoice of machinery bought on the 16th.

January 31. C. L. Yoder, Peoria, Ill., orders:

15	Enameled	Refrigerators	No. 320
12	"	"	No. 350
8	"	"	No. 355
4	Porcelain	"	No. 455

Terms: 2/10, n/30.

Issue a voucher check for the petty cash expenditures for the week.

Issue a voucher check for the pay roll including the following:

Skilled workmen and helpers	$1937.25
Unskilled workmen and helpers	45.00
Engineer and fireman	80.00
Foremen	130.00
Shipping clerk and helpers	115.00
Deliveryman and helper	125.00
Manager	125.00
Secretary	150.00
Office force	135.00
	$2842.25

CLOSING WORK

1. Close the sales journal and post it.

2. Close the cash book on journal paper and submit it to your teacher for correction. Study carefully the model cash book on pages 326 and 327 before closing the cash book. Notice that there are three steps in the closing of the cash book in this set. First, the sum of the first two columns of the Cash Receipts must equal the sum of the last three columns, and the accounts affected must be shown. Second, the sum of the first column of the Cash Payments must equal the sum of the last two columns, and the accounts affected must be shown. Third, the cash book must be balanced by taking the difference between the two Bank columns and entering it as Balance. The balance must be carried to the debit side of the cash book and placed in the General and Bank Dr. columns after the cash book has been ruled up.

In the cash book illustrated on pages 326 and 327 the Balance, May 1, was deducted first. In this set there was no balance, January 1, and this step is unnecessary. For February, the closing will be the same as the model.

3. Close the journal and post it.

4. Find the total of each amount column of the voucher record in pencil. The total of the Vouchers Payable column of the voucher record should equal the sum of all the other amount columns. Rule a single red line and on the second line below rule double red lines. Place the totals on the double lines. Post the voucher record totals and place the pages of the various accounts on the line above the total amounts. The total of the Sundry Accounts column is not posted, as each entry in it was posted daily.

5. Make a proof of the sales ledger.

6. Make a proof of the voucher record. To do this, list the unpaid vouchers by numbers and amounts, and find the sum. This sum should equal the balance of the Vouchers Payable account in the general ledger. It should also correspond with the vouchers still attached to the stub in the book of vouchers.

If these three do not agree, check the vouchers paid in the voucher record with the Cash Payments, and with the vouchers paid in the book of vouchers.

7. Take a trial balance of the general ledger.

Submit all of your books and the Vouchers Paid envelope to your teacher for inspection.

Set IX, January, will be completed in Chapter XXXIX.

CHAPTER XXXVIII

DEPRECIATION

All Tangible Fixed Assets depreciate in value. This is true of these assets no matter whether repairs and replacements are made or not. The use of the asset, lapse of time, and, in the case of machinery, patterns, etc., the possibility that the machine or pattern will be replaced by something better cause depreciation.

Depreciation of Buildings used for manufacturing, of machinery, tools, and equipment is a part of the cost of manufacturing. These fixed assets depreciate because they are used in manufacturing. The depreciation is just as much a manufacturing cost as repairs to machinery, labor, or any other cost element. A machine, for example, will last a certain number of years and then be of no value for manufacturing. It has been used up year by year in the process of manufacturing.

Basis of Estimating Depreciation. Depreciation on a machine will be taken as an example of the method of estimating depreciation. The basis of depreciation charges to be made at periodical intervals is the cost of the machine, the probable life of the machine, and the residual or scrap value, if any. The cost of the machine is a definite element that can readily be ascertained, but the other two elements are largely matters of opinion and can be nothing but estimates. The cost of the machine includes the cost of the machine itself, the cost of the freight and drayage necessary to put the machine in the factory, and the cost of installing and connecting the machine.

Even if the estimating of depreciation is something that cannot be determined with exactness, there are few business houses that do not make these estimates periodically. The poorest possible method of handling depreciation is that of allowing the asset to wear out without making any provision for depreciation. When a machine is bought to take the place of a machine that is worn out, it must be charged to the cost of production and not to the asset account. This makes some years bear a very heavy burden while others will bear only a small burden.

Even if repairs and replacements are made each year, provision

must be made for the complete wearing out of the machine or other asset. The only correct way of treating depreciation is to set aside periodically out of earnings a definite sum, so that no particular period will bear a heavy burden.

Methods of Estimating Depreciation. There are several methods of estimating depreciation in common use. One is to simply appraise or estimate the value of each asset each year. The difference between the former estimate and the present one is the depreciation. This is a difficult task if there are a large number of assets, such as tools and machines. It is not very satisfactory either because it does not consider the fact that a machine or other asset wears out faster as it becomes older and that later years will bear a heavier burden.

Another method is to take the difference between the cost of the machine and the residual or scrap value. This difference is divided by the number of years the machine is estimated to last. It is usually expressed as a certain per cent of the cost taken off each year.

If the cost of a machine was $1000 and it is worth $100 at the end of 10 years, $900 should be divided by 10 to give the deduction for each year. Expressed as a per cent of the cost to be taken off each year, 9% would be the deduction. This method is a simple one and a good one for short-lived assets. But there is one objection to it. The same amount is taken off each year but the repairs are more costly during the latter part of the period than during the first part. That makes the charge to manufacturing larger during the latter part of the period.

Another method that equalizes the burden for a period of years is to take off a fixed per cent of the decreasing net value each year. In this way, using the same illustration, 20.6% should be taken off of the decreasing net value yearly. Taking off 20.6%, or $206, the first year, would leave $794. 20.6% of this subtracted would leave $630.44. By continuing this for ten years, the approximate value left would be $100.

Methods of Entering Depreciation. Depreciation may be entered on the books by *writing down the asset* or by *setting up a reserve.* The method of writing down the asset has been illustrated in the sets already used. In the case of office equipment, delivery equipment, and other similar assets, the asset is usually written down by a charge to Profit and Loss, or to Selling and a credit to the asset account. By this method, the bookkeeper must refer back to the year in which the asset was purchased in order to find its cost. This is objectionable from an insurance point of view. For this reason, if the amount is large, it is better to use the method of setting up a reserve.

In the case of buildings, machinery, tools, and factory equipment, it is better to set up a reserve account for depreciation rather than to write down the asset. A separate reserve account should be kept for each asset account on which depreciation is taken, as, for Real Estate,

Reserve for Depreciation on Buildings; for Machinery, *Reserve for Depreciation on Machinery;* for Tools and Equipment, *Reserve for Depreciation on Tools and Equipment.*

The Entry in each case would be a debit to the Profit and Loss account affected, as,

Manufacturing
    To Reserve for Depreciation, Machinery

In the Balance Sheet, depreciation must be shown as a deduction from the asset against which it was set up, as,

Machinery	$ 5000	
Less 5% Reserve for Depreciation	250	
		$ 4750

Sale of Assets. When a machine is sold before it is completely worn out, the reserve for depreciation that has been set up must be taken into consideration in making the entry. When a machine or other asset is sold its full value must be taken out of the asset account. Whether the transaction will show a profit or a loss on the books at the time of making the entry will depend on whether the amount of the reserve for depreciation set up has been great enough to offset the loss in the sale of the asset.

To illustrate, a machine that cost $500 three years ago is carried on the books at $500 with a reserve for depreciation of $150 set up. It is sold for $325, thus making a loss of $25. The entries would be as follows:

Cash	$325	
To Machinery		$325

for the selling price of the machine.

To transfer the reserve for depreciation already on the books to Machinery, the entry would be:

Reserve for Depreciation, Machinery	$150	
To Machinery		$150

To account for the loss of $25 an entry must be made charging that amount to Surplus because it represents too small a charge to profits in previous years. If the sale is made at some other time than at the end of a fiscal period, the loss on the sale must be apportioned between former financial periods and the present one. If the books were closed December 31, and at that time a depreciation of $150 had been set up for a total of three years on an asset that cost $500, the carrying value of the asset was $350. If, on April 1, the machine was sold for $300, the first thing necessary would be to find the depreciation on the asset for three months and enter it as follows:

Manufacturing	$12.50	
To Reserve for Depreciation, Machinery		$12.50

The loss on the sale that has not been charged is $37.50.

The depreciation would be charged to the Machinery account, as before, as follows:

Reserve for Depreciation, Machinery	$162.50	
To Machinery		$162.50

The loss of $37.50 would be divided between Surplus and Manufacturing in the proportion of three years to three months. $\frac{36}{39}$, or $\frac{12}{13}$, should be charged to Surplus and $\frac{3}{39}$, or $\frac{1}{13}$, to Manufacturing. The entry would be:

Surplus	$34.62	
Manufacturing	2.88	
To Machinery		$37.50

If a machine that was carried on the books at $350 was sold at the end of the fiscal period for $375, the entry to Surplus would be a credit instead of a debit.

In all these cases, the new machine would be charged to the Machinery account and credited to Cash or to the account of the company from which the purchase was made.

Exercise 82. On January 1, machinery was purchased for $2500. On December 31 of the same year, it is decided to compute depreciation for the year at 8%. Make the necessary entry on December 31 and show how the depreciation would be shown in the balance sheet.

Exercise 83. On May 1, a corporation purchased machinery for $4500; on June 1, it purchased additional machinery for $1200, and on August 1, machinery for $500. Statements are made December 31 of the same year and depreciation taken at the rate of 8% per annum. Find the depreciation charge on all the machinery and make the necessary entry.

Exercise 84. A corporation purchased a motor truck for $1500 on March 1. When the books were closed on December 31 of the same year, depreciation was taken at the rate of 15% per year. In closing the books December 31 of the next year 15% of the diminished value was taken. Find the present value of the delivery equipment and make the entry for the depreciation.

Exercise 85. January 1, a corporation purchased land and buildings as follows: Land, $12500; Buildings, $22500. For three successive years the books were closed December 31 and a depreciation of 10% taken on the decreasing net value. On December 31 of the fourth year 10% is again computed on the decreasing net value. Make the necessary entry December 31 of the fourth year.

Exercise 86. On January 1, a corporation bought a machine for $1750. On December 31 of the same year 15% depreciation was taken. December 31 of the next year the same per cent was taken off of the cost. On April 1, of the next year, the machine was sold for $1085.

Make the entries necessary to record the depreciation, the sale of the machine, and the profit or loss on the transaction.

Before the profit or loss can be found, the depreciation charge for the time from the date of the last closing, December 31, to April 1 must be found and entered.

Exercise 87. A corporation bought three machines, as follows: February 1, $1800; May 1, $2400; July 1, $800. December 31 of the same year a depreciation charge of 12% per year was made on the original cost. On March 1, of the next year, the machine which cost $1800 was sold for $1325. On September 1, the machine which cost $800 was sold for $650. Make all the entries necessary to record the depreciation on December 31 and the sales on March 1 and September 1.

CHAPTER XXXIX

MANUFACTURING, SELLING, AND PROFIT AND LOSS STATEMENTS

Before making statements and closing the ledger for the month of January, a study must be made of the method of making the statements in a manufacturing business and of the new entries necessary to close the ledger. This will be done by taking a trial balance and inventories and from them making statements, a balance sheet, and giving the closing entries and the closing ledger accounts.

Trial Balance, December 31, 19—

Capital Stock		$ 75000.00
Surplus		6175.25
Land & Buildings	$ 25000.00	
Machinery	7500.00	
Tools & Equipment	1025.00	
Delivery Equipment	1425.00	
Furniture & Fixtures	375.00	
Patents	2150.00	
Notes Receivable	3896.00	
Accounts Receivable	18277.55	
Advances to Salesmen	250.00	
Petty Cash	50.00	
First National Bank	26175.50	
Vouchers Payable		7192.40
Notes Payable		5385.75
Notes Receivable Discounted		1576.00
Material Purchases	24834.75	
Freight In	387.50	
Direct Labor	12173.80	
Fuel, Light & Power	616.75	
Factory Supplies	92.80	
Indirect Labor	505.00	
Repairs to Machinery	75.20	
Repairs to Buildings	187.50	

Sales.		$34217.90
Salesmen's Salaries	$ 675.00	
Salesmen's Traveling Expenses	615.00	
Discount on Sales	215.25	
Freight Out	92.80	
Advertising	1435.00	
Shipping	335.00	
Delivery Expense	345.00	
Office Salaries	750.00	
Miscellaneous Office Expense	104.30	
Stationery & Printing	35.20	
Insurance	185.00	
Discount on Purchases		347.25
Collection & Exchange	16.80	
Interest	92.85	
	$129894.55	$129894.55

Inventories, December 31, 19—

Raw Material		$8172.50
Finished Goods		5417.20
Unpaid Labor		452.25
Direct.	$417.25	
Indirect	35.00	
Fuel on Hand		84.30
Factory Supplies		16.40
Unexpired Advertising		625.00
Unexpired Insurance.		115.00
On Raw Material	85.00	
On Finished Goods	20.00	
On Delivery Equipment	10.00	
Accrued Interest on Notes Payable		16.70
" " " " Receivable		21.40

The following depreciations and reserves are allowed:

On Buildings	1%
On Machinery	3%
On Tools & Equipment	4%
On Delivery Equipment	2%
On Furniture & Fixtures	2%
Reserve for Bad Debts	$\frac{1}{2}$%

The student should make a careful review of Chapter XXXV on Manufacturing Costs before studying the following statements.

MANUFACTURING, SELLING, AND PROFIT & LOSS STATEMENTS

for the month ending December 31, 19—

MANUFACTURING SECTION

Prime Cost:				
Material Purchases	$24834.75		*Manufacturing Cost down*	*$31746.68*
Less Inventory	8172.50	$16662.25		
Freight In		387.50		
Direct Labor, Paid	12173.80			
" " Unpaid	417.25	12591.05		
Manufacturing Expense:				
Fuel, Light & Power	616.75			
Less Coal on Hand	84.30	532.45		
Factory Supplies	92.80			
Less Supplies on Hand..	16.40	76.40		
Indirect Labor, Paid	505.00			
" " Unpaid	35.00	540.00		
Insurance	120.00			
Less Unexpired	85.00	35.00		
Repairs to Machinery		75.20		
" " Buildings		187.50		
Patents Used		143.33		
Depreciation on Buildings, 1%		250.00		
" " Machinery, 3%		225.00		
" " Tools & Equip., 4%		41.00		
		$31746.68		$31746.68

SELLING SECTION

Manufacturing Cost down	$31746.68		Sales	$34736.45	
Less Inventory, Fin. Goods	5417.20	$26329.48	Returns and Allow.	518.55	
Salesmen's Salaries		675.00	Net Sales	34217.90	
" Traveling Exp.		615.00	Less Discount	215.25	
Delivery Expense		345.00	Net Ret. from Sales		$34002.65
Shipping		335.00			
Freight Out		92.80			
Advertising	1435.00				
Less Unexpired	625.00	810.00			
Insurance	65.00				
Less Unexpired	30.00	35.00			
Depreciation on Delivery Equip.		28.50			
Gross Selling Profit down		*4736.87*			
		$34002.65			$34002.65

PROFIT AND LOSS SECTION

Office Salaries		$750.00	Gross Selling Profit down	$4736.87
Miscellaneous Office Expense		104.30	Discount on Purchases	347.25
Stationery & Printing		35.20		
Collection & Exchange		16.80		
Interest Paid	$ 92.85			
" Accrued, Notes Pay.	16.70			
	$109.55			
" Accrued, Notes Rec.	21.40	88.15		
Depreciation, Furniture & Fixtures		7.50		
Reserve for Bad Debts		91.39		
Net Profit		*3990.78*		
		$5084.12		$5084.12

The following journal entries would then be made, under date of December 31, 19—, and posted to the ledger accounts affected:

Inventory, Raw Material	$ 8172.50	
To Material Purchases		$ 8172.50
Direct Labor	417.25	
Indirect Labor	35.00	
To Accrued Liability Inventories		452.25
Manufacturing	31746.68	
To Material Purchases		16662.25
Freight In		387.50
Direct Labor		12591.05
Fuel, Light & Power		532.45
Factory Supplies		76.40
Indirect Labor		540.00
Insurance		35.00
Repairs to Machinery		75.20
" " Buildings		187.50
Patents		143.33
Reserve for Dep., Buildings		250.00
Reserve for Dep., Machinery		225.00
Reserve for Dep., Tools and Equip.		41.00

Selling	$31746.68	
To Manufacturing		$31746.68
Sales	34217.90	
To Selling		34217.90
Inventory, Finished Goods	5417.20	
To Selling		5417.20
Selling	3151.55	
To Salesmen's Salaries		675.00
" Traveling Exp.		615.00
Discount on Sales		215.25
Delivery Expense		345.00
Shipping		335.00
Freight Out		92.80
Advertising		810.00
Insurance		35.00
Delivery Equipment		28.50
Selling	4736.87	
To Profit & Loss		4736.87
Interest	16.70	
To Accrued Liability Inventories		16.70
Accrued Asset Inventories	21.40	
To Interest		21.40
Discount on Purchases	347.25	
To Profit & Loss		347.25
Profit & Loss	1093.34	
To Office Salaries		750.00
Miscellaneous Office Exp.		104.30
Stationery & Printing		35.20
Collection & Exchange		16.80
Interest		88.15
Furniture & Fixtures		7.50
Reserve for Bad Debts		91.39
Profit & Loss	3990.78	
To Surplus		3990.78

In posting to the Manufacturing, Selling, and Profit & Loss accounts the details of each entry must be given, as follows:

MANUFACTURING

Dec.	31	Material Pur.	J	8	16662	25	Dec.	31	Selling	J	8	31746	68
		Freight In			387	50							
		Direct Labor			12591	05							
		Fuel, Light & Power			532	45							
		Factory Supplies			76	40							
		Indirect Labor			540	—							
		Insurance			35	—							
		Repairs to Mach.			75	20							
		" " Building			187	50							
		Patents			143	33							
		Dep. on Buildings			250	—							
		" " Machinery			225	—							
		" " Tools & Equip.			41	—							
					31746	68						31746	68

SELLING

Dec.	31	Manufacturing	J	9	31746	68	Dec.	31	Sales	J	9	34002	65
		Salesmen's Salaries			675	—			Inv. Fin. Goods			5417	20
		" Trav. Exp.			615	—							
		Delivery Expense			345	—							
		Shipping			335	—							
		Freight Out			92	80							
		Advertising			810	—							
		Insurance			35	—							
		Dep. on Delivery Equip.			28	50							
		Profit & Loss			4736	87							
					39419	85						39419	85

PROFIT & LOSS

Dec.	31	Office Salaries	J	9	750	—	Dec.	31	Selling	J	9	4736	87
		Misc. Office Expense			104	30			Disc. on Pur.			347	25
		Stationery & Printing			35	20							
		Collection & Exchange			16	80							
		Interest			88	15							
		Dep. on Furn. & Fix.			7	50							
		Reserve for Bad Debts			91	39							
		Surplus			3990	78							
					5084	12						5084	12

After closing the ledger and balancing all asset accounts remaining on the books and all asset elements in nominal accounts, a balance sheet should be taken, as follows:

BALANCE SHEET, DECEMBER 31, 19—.

ASSETS			LIABILITIES	
Real Estate	$25000.00		Capital Stock	75000 00
Less Reserve for Dep.	250.00	24750 00	Surplus	10166 03
			Notes Payable	5385 75
Machinery	7500.00		Vouchers Payable	7192 40
Less Reserve for Dep.	225.00	7275 00	Notes Receivable Disc.	1576 00
			Labor Unpaid	452 25
Tools & Equipment	1025.00		Interest Accrued	16 70
Less Reserve for Dep.	41.00	984 00	Reserve for Bad Debts	91 39
Delivery Equipment	1425.00			
Less Depreciation	28.50	1396 50		
Furniture & Fixtures	375.00			
Less Depreciation	7.50	367 50		
Patents	2150.00			
Less $\frac{1}{15}$ used	143.33	2006 67		
Inventory, Materials		8172 50		
" Finished Goods		5417 20		
Notes Receivable		3896 00		
On hand	2320.00			
Discounted	1576.00			
Accounts Receivable		18277 55		
Advances to Salesmen		250 00		
Fuel, Light & Power		84 30		
Factory Supplies		16 40		
Advertising		625 00		
Insurance		115 00		
Interest		21 40		
Petty Cash		50 00		
First National Bank		26175 50		
		99880 52		99880 52

SET IX, JANUARY

CLOSING WORK (Concluded)

8. Make Manufacturing, Selling, and Profit and Loss statements, using the following inventories:

Raw Material	$ 993.50
Finished Goods	1480.50
Coal on Hand	102.25
Insurance Unexpired:	
Manufacturing, $108.12; Selling, $22.58	130.70
Advertising Unexpired	970.00
Interest Accrued on Notes Receivable	3.67

Compute depreciations and reserves as follows:

Buildings	1%
Machinery	1%
Tools and Equipment	2%
Furniture & Fixtures	1%
Delivery Equipment	2%
Reserve for Bad Debts	1% of Accounts Receivable

Before using the inventories as a result of the taking off of these depreciations, submit them to your teacher for correction.

9. Make the necessary entries to close the books, and post them.
   a) To enter the inventories, and to transfer the accounts in the Manufacturing section to the Manufacturing account.
   b) To transfer the balance of the Manufacturing account to the Selling account.
   c) To transfer the accounts in the Selling section to the Selling account.
   d) To transfer the balance of the Selling account to the Profit and Loss account.
   e) To enter the inventories, and to transfer the accounts in the Profit and Loss section to the Profit and Loss account.
   f) To transfer the balance of the Profit and Loss account to Surplus.

10. Rule all nominal and mixed accounts. Bring down all asset or liability elements.

11. Balance all accounts that show an asset or a liability unless there is simply one item in the account. Rule all accounts that balance.

12. Make a balance sheet of the ledger after closing.

13. Copy your Manufacturing, Selling, and Profit and Loss statements, and your Balance Sheet in your blank books.

14. Submit all of your books to your teacher for correction.

REVIEW QUESTIONS

1. What is a corporation?
2. Give the steps necessary to organize a corporation.
3. Distinguish between preferred stock and common stock.
4. a) What is treasury stock? b) How does it differ from unsubscribed stock?
5. What auxiliary books are necessary to record the acts of a corporation as such?
6. Describe the stock ledger and explain the entries in it.
7. Explain each of the following accounts by telling for what each is used and what each shows in the statements: Subscriptions, Capital Stock, and Unsubscribed Stock.
8. Explain the meaning of prime cost, manufacturing cost, factory burden, and overhead expense.
9. In which statement should each of the following accounts and inventories be placed, and why: Discount on Sales, Discount on Purchases, Patents, Depreciation on Machinery, Depreciation on Furniture & Fixtures, Interest, Inventory of Finished Goods, Inventory of Factory Supplies?
10. a) What is Good Will? b) Under what conditions should the account be opened up? How is it treated in the statements?
11. What entries should be made on partnership books to show the sale of a business to a corporation and the receipt of stock for it?
12. What entries should be made on corporation books to show the purchase of a partnership business and the issue of stock in payment?
13. a) What is a voucher? b) What is the meaning of the word as used in connection with a voucher system of accounts?
14. a) What are the advantages of the voucher system of accounts? b) Are there any disadvantages?
15. Describe three kinds of vouchers or voucher checks.
16. What is meant by the expression "distribution of voucher?"
17. Describe the voucher record, and tell how the entries are made in it.
18. a) How is the voucher record posted? b) How is it proved?
19. What entries are made when a voucher is paid?
20. Give two ways of computing depreciation.
21. Give two methods of entering depreciation on the books.
22. Give the closing entry to transfer the manufacturing costs to the proper accounts.
23. Give the closing entry to transfer the sales and the selling expenses to the proper accounts.
24. Give the closing entry to transfer the general items to the proper account.
25. Give the entry to close the Profit & Loss account.

CHAPTER XL

MANUFACTURING

SET IX

TRANSACTIONS FOR FEBRUARY 1-28

The Same Books of entry will be used for this month as for January. Vouchers will be made out in the same way and the entries will be made like those of January with the exception of a few new features which will be explained as they are taken up.

Before making any entries for February, it will be necessary to transfer to the respective accounts the inventories that were opened up in special accounts for the purpose of closing the accounts. This is done by a reversing entry for each account effected, as follows:

Material Purchases	$993.50	
To Inventory Raw Material		$993.50
Interest	$3.67	
To Accrued Asset Inventories		$3.67

In making entries in the sales journal for this month, use the first column for the amount of the invoice, the second, for the amount of the refrigerator sales for any invoice, and the third, for the amount of kitchen cabinet sales for any invoice. At the end of the month, the total of the *Amount* column should be debited to Accounts Receivable, the total of the *Refrigerator Sales* column should be credited to Refrigerator Sales, and the total of the *Kitchen Cabinet Sales* column should be credited to Kitchen Cabinet Sales.

February 2. The company has decided to manufacture a kitchen cabinet for the trade in addition to the line of refrigerators already listed. To do this, the company has bought the Patent right for the manufacture of kitchen cabinets from C. D. Janis for $1500. The patent has five years to run. Pay him for it by voucher check. Charge it to Patents.

The Patent Account. This account is kept for the cost of all patents. It is also charged for any money paid out for defending the patent right or for the cost of prosecuting for infringement of the patent. A patent gives the patentee the right to manufacture the

article upon which the patent is granted, exclusively for a period of seventeen years. Each time that a statement is made a proportionate part of the cost of the patent has been used in manufacturing. In this case, the patent has five years to run. Each year one-fifth of the cost must be charged off to Manufacturing, or one-sixtieth for one month. In the same way, any cost of defending the patent or of prosecuting for infringement must be apportioned over the time that the patent has to run.

Bought an invoice of aluminum from the Everwear Aluminum Co., New York, amounting to $475. Terms: 2/10, n/30.

J. A. Dreher & Co., Ft. Wayne, Ind. order:

16 Galvanized Refrigerators No. 255
8 Enameled " No. 325

Terms: 2/10, n/30.

Bought an invoice of lumber from the Schroeder Lumber Co., Oshkosh, Wis., as follows:

10 M ft. Maple Lumber at $52.75
8 M ft. Oak Lumber at 71.40
5 M ft. Ash Lumber at 40.25

Terms: 2/10, n/30.

Pay the Hilton Mfg. Co. for the invoice of machinery due today.

The C. M. & St. P. R. R. Co. presents a freight bill for $185.75 for the two invoices of material purchased today. Pay it.

D. E. Bolting, Muskegon, Mich., orders:

15 Enameled Refrigerators No. 320
18 " " No. 350
24 " " No. 360

Terms: draft 30 days after date.

Make no entry for the draft till it is reported accepted.

J. E. Brock, Cleveland, Ohio, orders:

8 Enameled Refrigerators No. 325
12 " " No. 350
20 Porcelain " No. 450

Terms: 2/10, n/30.

Pay the Pritzlaff Hardware Co. for the invoice of hardware due today.

February 3. Bought an invoice of porcelain of the Lawrence Pottery Co., E. Liverpool, Ohio, amounting to $575.80. Terms: account 15 days.

Pay freight on this purchase of porcelain by check in favor of the C. & N. W. R. R. Co., $57.25.

Bought an invoice of glass from the Zimmers Glass Co., Wheeling,

W. Va., $346.80. Terms: cash, less 3%. Enter the full amount in the voucher record.

C. N. Noble, St. Paul, orders:

16	Enameled	Refrigerators	No. 320
18	"	"	No. 350
5	Porcelain	"	No. 455

Terms: 2/10, n/30.

J. C. Ochs, Ft. Wayne, Ind., orders:

6	Galvanized	Refrigerators	No. 215
12	"	"	No. 250

Terms: draft with B/L attached.

Bought an invoice of machinery from the J. I. Case Machine Co., Racine, Wis., amounting to $1575. Terms: cash.

Pay freight on this invoice of machinery by check in favor of the C. M. & St. P. R. R. Co., $8.95.

February 4. Pay the voucher of January 5 in favor of the Western Coal Co.

Bought an invoice of zinc and galvanized iron from the National Iron Co., Chicago, Ill., as follows: zinc, $297.85; galvanized iron, $437.50. Terms: n/30; f. o. b. Milwaukee.

Pay cash for stamps, $5; for telegrams, 75¢; and for office supplies, $3.75.

Bought of the Underwood Typewriter Co., City, one Underwood typewriter for $100. Terms: cash.

J. A. Dreher & Co. report one enameled refrigerator, No. 325, damaged in transit. Give them credit for it.

B. N. Rarden, Detroit, Mich., orders:

9	Galvanized	Refrigerators	No. 250
12	"	"	No. 260
5	Enameled	"	No. 320

Terms: sight draft for $200; balance, on account.

F. A. Somers, Louisville, Ky., orders:

8	Enameled	Refrigerators	No. 350
12	Porcelain	"	No. 450
5	"	"	No. 460

Terms: 2/10, n/30.

February 5. Bought an invoice of hardware from the Pritzlaff Hardware Co., City, amounting to $347.80. Of this, $16.50 is for repairs to the building, and the balance is for raw material. Terms: 2/10, n/30.

Advertised in the Daily News for finishers for the factory. Pay for three insertions in cash, $2.25.

Bought a safe for the office from the Hibbard Safe Co., Cincinnati, Ohio, for $475. Terms: n/30.

Received D. E. Bolting's acceptance of our 30-day draft for the sale to him on the 2d.

Pay Voigt & Co. for taking photographs and making cuts to be used in advertising matter, by check, $27.50.

February 6. Pay the voucher of January 7 in favor of the Patton Paint Co.

Received a check of C. D. Caldwell & Co. for invoice of January 28.

One of the workmen, J. C. Belding, has bought a galvanized refrigerator No. 250. Give him a discount of 10%. Enter it in the sales journal for the net amount. The cash is received. Enter it in the cash book. Check in both places.

G. A. Bower, La Crosse, Wis., orders:

15	Enameled	Refrigerators	No. 320
24	"	"	No. 325
12	"	"	No. 350

Terms: cash, less 3%.

The cash is received with the order.

B. E. Derby, Columbus, Ohio, orders:

8	Galvanized	Refrigerators	No. 260
12	Enameled	"	No. 320

Terms: note at 30 days, with interest at 6%.

The note is not received with the order.

February 7. Bought of the City Supply Co., City, factory supplies amounting to $68.75. Terms: n/30.

The bank reports the sight draft on B. N. Rarden left for collection on the 4th collected. Pay the charges of $\frac{1}{10}$% in cash.

Issue a voucher check to yourself for the petty expenses for the week. Balance the petty cash book.

N. D. Garvey paid the invoice of January 29.

February 9. C. A. McKinney paid the invoice of January 30.

Bought an invoice of varnish, stains, and shellac of the Patton Paint Co., City, amounting to $237.80. Terms: 1/10, n/30.

The bank reports the sight draft with B/L attached, on J. C. Ochs, left at the bank on February 3, collected. Pay the collection charges, 25¢, in cash.

Pay cash for envelopes and bill heads, $5.75.

D. C. Harvey, Appleton, Wis., orders:

18	Enameled	Refrigerators	No. 350
12	"	"	No. 360
6	Porcelain	"	No. 450

Terms: 2/10, n/30.

February 10. Received a check from C. L. Yoder, for invoice of January 31.

C. D. Masters, traveling salesman, reports expenses amounting to $47.85. Give him a voucher check for that amount.

Received a bill from the Kort Printing Co. for printing circulars to be sent to the trade, $7.50. Pay it by voucher check.

Pay Chas. Pollock cash, $2.50, for addressing envelopes for advertising circulars.

Pay cash, $6, for mailing these circulars.

Received B. E. Derby's note for 30 days, dated February 6, with interest at 6%, for invoice of February 6.

As the stock of finished goods is increasing and the warehouse is overcrowded, the board of directors has voted to buy the four lots adjoining the factory site and the building on it of the Ticonic Realty Co., for $15750. The lots are valued at $4400 and the building at $11350. The terms agreed upon are cash, $7000, and a mortgage payable one year after date with interest at 6% for the balance. Make a voucher for the purchase price. Write the check for $7000 and enter it in the cash book. After the voucher number, write, *In part payment.*

In the journal make an entry debiting Vouchers Payable and crediting Mortgage Payable for the amount of the mortgage. The explanation should show to whom the mortgage is payable and the time and rate of interest. In the "When Paid" column of the voucher record, *Cash and Mortgage* should be written, with a *J* before "Mortgage."

February 12. D. C. Harvey reports one porcelain refrigerator No. 450 damaged in transit. Credit him for it.

The time of one workman has been employed in repairing machinery. Make a journal entry charging 12 hours time at 45¢ an hour.

C. N. Yahr, Dubuque, Iowa, orders:

14	Galvanized	Refrigerators	No. 220
9	"	"	No. 255
4	Enameled	"	No. 320

Terms: n/30.

C. F. Gorrell, Pittsburg, Pa., orders:

6	Galvanized	Refrigerators	No. 260
15	Enameled	"	No. 315
6	"	"	No. 360

Terms: 1/10, n/30.

J. A. Dreher & Co. paid the invoice of February 2 and the invoice of January 14. Make an entry for each invoice paid.

Pay the Schroeder Lumber Co. for invoice of the 2d.

Pay the Everwear Aluminum Co. for invoice of the 2d.

February 13. G. A. Bower reports that two enameled refrigerators No. 320 were unsatisfactory. He has been allowed a rebate of one-half

the value of them. Since he has paid cash for his purchase, issue a voucher to him for the amount.

What account was credited when the sale was made? This transaction must be charged to the same account.

Discount at the National Exchange Bank, C. N. Yahr's note, dated January 23, payable 30 days after date, with interest at 6%. The bank charges 6%. Do not forget that there is a credit on this note because of an allowance.

Also discount at the bank D. E. Bolting's acceptance of our 30-day draft, dated February 2. The bank charges 6%.

Received a check of C. N. Noble for invoice of the 3d.

Received a check of F. A. Somers for invoice of the 4th.

February 14. Received of J. E. Brock a check for invoice of February 2, less discount. As the check was not received within the 10 days, we have refused to allow him the discount, and have notified him to that effect. Give him credit for the amount he has sent.

Pay Pritzlaff Hardware Co. for the invoice of February 5.

Issue a voucher check in your favor for the petty cash expenditures for the week.

The manager hands you the pay roll for the factory for two weeks as follows:

Skilled workmen and helpers	$1236.40
Engineer and fireman	85.00
Unskilled workmen	35.00
Foremen	150.00
Shipping clerk and helpers	105.00

Issue a voucher check in your favor as cashier for the pay roll.

February 16. Pay invoice of January 16 favor the Janes Lumber Co.

Received a check from B. E. Derby to balance his account for January.

The manager reports the first lot of kitchen cabinets ready for shipment. They will be known as No. 150 and will sell for $11.35. Add this item to your price list.

C. L. Yoder, Peoria, Ill., orders:

8	Galvanized Refrigerators	No. 260
15	Enameled "	No. 325
8	Porcelain "	No. 450
6	" "	No. 460

Terms: 2/10, n/30.

D. G. Loucks, South Bend, Ind., orders:

5	Galvanized Refrigerators	No. 210
12	" "	No. 215
8	" "	No. 225
15	" "	No. 250

Terms: note at 30 days.

Make no entry for the note until it is reported received.

C. F. Gorrel's acceptance, which was left at the bank for collection, is reported collected. Pay the collection charges in cash, 30¢.

February 17. As the company is in need of money for maturing bills, the board of directors has arranged with the National Exchange Bank to discount our note for $3000, payable 60 days after date, at 6% discount.

Also discount at the bank B. E. Derby's note of February 6, with interest at 6%. The bank charges 6%.

C. L. Voss, Detroit, Mich., sends a check for invoice of January 19 and orders:

8	Galvanized Refrigerators	No. 255
12	Enameled "	No. 315
20	" "	No. 325
5	Porcelain "	No. 460
15	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

In all sales of refrigerators and kitchen cabinets, the amount of the invoice must be entered in the first column, the sum of the refrigerator sales in the second column, and the sum of the kitchen cabinet sales in the third column.

L. C. Prey & Co., Keokuk, Iowa, order:

6	Galvanized Refrigerators	No. 220
15	" "	No. 255
8	Enameled "	No. 315
12	Kitchen Cabinets	No. 150

Terms: note at 30 days for $250; balance, on account.

February 18. Bought of the Steiner Lumber Co., Oshkosh, Wis.:

15 M ft.	Oak Lumber	at $71.50
8 M ft.	Ash Lumber	at 40.15
5 M ft.	Pine Lumber	at 35.45
6 M ft.	Maple Lumber	at 51.25

Terms: draft at 30 days.

The draft accompanied the invoice and has been accepted.

Enter the purchase in the voucher record in the usual way. Mark the date of payment in the "When Paid" column and put a J before it to show that it was not a cash payment. Make a journal entry for the accepted draft. Do not forget that although no purchase ledger is kept, the name of the company must be given in the explanation column of the journal. Since this voucher is paid so far as our records are concerned, it should be torn from the stub and *Paid by 30-day acceptance* should be written on the face of the voucher. It should not be sent to the Steiner Lumber Co. as companies do not receipt for vouchers except for cash payments.

Received of J. E. Brock a check for the invoice and charge of January 19 and the balance of the invoice of February 2.

Pay the Lawrence Pottery Co. for invoice of February 3.

February 19. D. C. Harvey, Appleton, Wis., sends a check for invoice of February 9, and orders:

8	Enameled Refrigerators	No. 350
12	" "	No. 360
15	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

Pay the Patton Paint Co. for invoice of February 9.

Pay cash for cleaning offices $5, and for telegrams, $1.25.

F. A. Somers, Louisville, Ky., orders:

10	Enameled Refrigerators	No. 315
15	" "	No. 355
6	Porcelain "	No. 450
20	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

February 20. C. L. Yoder reports one porcelain refrigerator No. 450 in a damaged condition. Give him credit for it.

Pay Eiring Iron Co. for invoice of January 21.

Received of D. G. Loucks his note at 30 days, for invoice of February 16.

Pay cash for repairs to motor truck, $6.50.

C. N. Yahr, Dubuque, Iowa, orders:

5	Galvanized Refrigerators	No. 205
10	" "	No. 220
5	Enameled "	No. 315
12	" "	No. 320

Terms: 2/10, n/30.

J. A. Dreher & Co., Ft. Wayne, Ind., order:

18	Enameled Refrigerators	No. 350
15	" "	No. 360
5	Porcelain "	No. 455
6	" "	No. 460
15	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

B. N. Rarden, Detroit, Mich., orders:

6	Enameled Refrigerators	No. 325
15	" "	No. 355
12	" "	No. 360
12	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

February 21. Received a check of C. F. Gorrel for 70 cents on the dollar of his account. As he is bankrupt it is accepted in full payment of his account.

The bank reports the note of C. N. Yahr and the acceptance of D. C. Harvey paid.

When the note and acceptance were discounted, the company indorsed them to the bank. By so doing the company incurred a secondary liability which was shown by crediting Notes Receivable Discounted. When they were paid, the secondary liability ceased. It is then necessary to take the amount out of Notes Receivable Discounted and put it to the credit of Notes Receivable. Make journal entries debiting Notes Receivable Discounted and crediting Notes Receivable. Do not forget to explain the entries.

Received of L. C. Prey & Co. their note for $250, dated February 17, payable 30 days after date.

B. E. Derby, Columbus, Ohio, orders:

15	Galvanized Refrigerators	No. 260
8	Enameled "	No. 315
12	" "	No. 350
24	Kitchen Cabinets	No. 150

Terms: 30-day draft.

N. D. Garvey, Albany, N. Y., orders:

6	Enameled Refrigerators	No. 320
8	" "	No. 325
12	" "	No. 355
18	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

Issue a voucher check in favor of yourself for the petty cash expenditures for the week. Balance the petty cash book.

February 23. Discount at National Exchange Bank D. G. Loucks' note, dated February 16. The bank charges 6%.

Bought of Western Supply Co. for the motor truck:

1	No. 36 Motor Top	$175.00
2	No. 85 Solid Tires	66.50
3	gal. Lubricating Oil	1.35
50	gal. Gasoline	6.00

Terms: cash.

Bought an invoice of galvanized iron and zinc from the National Iron Co., Chicago, Ill., amounting to $318.95. Terms: n/30.

Pay the freight on this invoice by voucher check to the C. M. & St. P. R. R. Co., $25.60.

C. L. Yoder pays his invoice of February 16 and orders:

25 Kitchen Cabinets No. 150

Terms: 2/10, n/30.

February 24. The factory manager reports that two wood-working machines, bought on January 2, for $1500, are not doing satisfactory work. The board of directors has authorized their sale for $1200, cash,

and two new ones have been purchased from the Matthews Machine Co. for $1850. The cash is received for the old machines and the new ones are bought on the terms, net 10 days.

The cash received must first be entered and credited to the Machinery account. The question of depreciation must then be considered. 1% of the cost was set up as a reserve at the end of January. This has been credited to Reserve for Depreciation on Machinery. In addition, the depreciation on the machines for 24 days of this month must be computed. Find the depreciation for one month at 1% on the cost and take four-fifths of it.

Make a journal entry crediting Reserve for Depreciation on Machinery and debiting the Manufacturing account for the depreciation for this part of February. Then make an entry debiting Reserve for Depreciation on Machinery for the one and four-fifths months and crediting Machinery. The loss on these machines, $273, will be charged to the January and February business in the proportion of 5 to 4. Charge five-ninths of the loss to the January business and four-ninths to the February business.

Make a journal entry debiting Surplus for the loss on the January business and debiting Manufacturing for the loss on the February business and crediting Machinery for the sum.

Then make the usual entry for the new machines purchased.

The bank reports J. E. Brock's acceptance of January 23 paid. Make the proper entry to show that you no longer have any liability for its payment. Received the 30-day acceptance of B. E. Derby for the sale on the 21st.

C. L. Voss, Detroit, Mich., pays his invoices of January 26 and February 17, and orders:

8	Enameled Refrigerators	No. 350
12	Porcelain "	No. 450
6	" "	No. 460
16	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

C. A. McKinney, Harrisburg, Pa., orders:

25	Galvanized Refrigerators	No. 250
20	Enameled "	No. 320
10	" "	No. 350
15	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

Bought of the Minneapolis Lumber Co.:

7	M ft. White Pine Lumber	at $52.75
4	M ft. Maple Lumber	at 58.95
6	M ft. Oak Lumber	at 73.85

Terms: n/30.

February 26. Received a check from F. A. Somers, Louisville, Ky., for invoice of January 28. He also orders the following:

14	Galvanized Refrigerators	No. 250
12	Enameled "	No. 315
18	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

Pay cash for cleaning the offices, $3.60, and for telegrams, $1.45.

N. D. Garvey returned six enameled refrigerators No. 320 as unsuited to his trade. Allow him credit for them.

Pay cash to D. G. Crane for repairs to the buildings, $15.75.

The Kewanee Co. presents a bill for $375 for installing smoke consumers in our plant. Pay it by voucher check and charge it to Machinery.

February 27. L. C. Prey & Co., Keokuk, Iowa, pay the balance of the invoice of February 17, and order:

6	Galvanized Refrigerators	No. 225
8	" "	No. 250
12	Enameled "	No. 325
16	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

D. G. Loucks, South Bend, Ind., orders:

6	Enameled Refrigerators	No. 315
8	" "	No. 350
12	" "	No. 360
10	Kitchen Cabinets	No. 150

Terms: 2/10, n/30.

C. D. Masters reports his traveling expenses to date, $52.40. Issue a voucher check to him for his expenses and for his salary for one month.

February 28. Issue a voucher check for the petty cash expenditures for the week. Balance the petty cash book.

Issue a voucher check in favor of yourself for the following pay roll:

Skilled workmen and helpers	$2046.50
Unskilled workmen and helpers	55.00
Engineer and fireman	85.00
Foreman	145.00
Shipping clerk and helpers	115.00
Deliveryman and helper	125.00
Manager	125.00
Secretary	150.00
Office force	135.00

CLOSING WORK

1. Close the sales journal and post it. You must show the posting to both Refrigerator Sales and Kitchen Cabinet Sales.

2. Close the cash book. You must first deduct the balance of cash, February 1, from the total of the General and Bank columns before closing the cash book as in January. This is necessary in order to find the cash received during February and deposited in the bank. It is this difference between the total of the Bank column and the balance, February 1, that is posted to the debit of the Bank account. Post all the totals that should be posted.

3. Close the journal and post it.

4. Prove the sum of the distribution columns with the sum of the Vouchers Payable column of the voucher record. Close the voucher record and post it.

5. Make a proof of the sales ledger.

6. Make a proof of the voucher record.

7. Take a trial balance of the general ledger.

Submit all of your books and the Vouchers Paid envelope to your teacher for correction.

8. Make Manufacturing, Selling, and Profit and Loss statements, using the following inventories:

Raw Material	$1035.80
Finished Goods	2817.20
Factory Supplies	23.25
Insurance Unexpired	119.06
Advertising Unexpired	217.50
Interest Accrued on Notes Receivable	11.48
Interest Accrued on Mortgages Payable	24.79
Gas Bill Owed	37.45
Unpaid Wages (Productive Labor)	47.50

Patents written off for $\frac{1}{12}$ of a year

Depreciation charges as follows:

Buildings, 1% on $14120.75, $\frac{1}{2}$% on $11350

Machinery, 1% on $6749.20, none on the last purchase

Tools and Equipment	2%
Furniture and Fixtures	1%
Delivery Equipment	2%
Reserve for Bad Debts	2% of Accounts Receivable

9. Make the necessary entries to close the books. Refer to the outline of the closing entries at the close of January before making the entries.

10. Balance all accounts that show an asset or a liability unless there is simply one item in an account. Rule all nominal accounts.

11. Make a balance sheet from the ledger after closing.

12. Copy your Manufacturing, Selling, and Profit and Loss statements, and your Balance Sheet in your blank books.

13. Submit all of your books to your teacher for inspection. Set IX will be completed in Chapter XLI.

Exercise 88. From the following trial balance and inventories make Manufacturing, Selling, and Profit and Loss statements for the month ending January 31, 19—.

Trial Balance, January 31, 19—.

Capital Stock		$50000.00
Unsubscribed Stock	$10000.00	
GoodWill	5000.00	
Land & Buildings	17500.00	
Machinery, Tools & Equipment	6250.00	
Horse & Wagon	575.00	
Furniture & Fixtures	285.00	
Patents	1755.00	
Notes Receivable	3896.75	
Accounts Receivable	15451.60	
Petty Cash	75.00	
Second National Bank	8736.45	
Material	9642.80	
Freight In	212.40	
Direct Labor	6300.20	
Repairs to Plant	93.75	
Fuel, Light & Power	375.00	
Factory Supplies	112.50	
Indirect Labor	312.75	
Advertising	327.50	
Salesmen's Salaries	450.00	
" Traveling Expenses	385.00	
Delivery Expense	125.50	
Freight Out	28.50	
Sales		18816.85
Returns and Allowances on Sales	236.75	
Miscellaneous Office Expense	56.75	
Office Salaries	375.00	
Interest	18.90	
Taxes	318.50	
Insurance	295.75	
Notes Payable		7500.00
Accounts Payable		10375.50
Notes Receivable Discounted		2500.00
	$89192.35	$89192.35

Inventories, January 31, 19—

Raw Material		$1575.60
Factory Supplies		18.95
Finished Goods		2315.25
Patents, $\frac{1}{30}$ used; $\frac{29}{30}$ unused		
Direct Labor Accrued		215.75
Indirect Labor Accrued		10.50
Advertising Unexpired		52.50
Interest on Notes Receivable		9.75
" " " Payable		12.50
Insurance Unexpired		45.25
Depreciation on Buildings	1%	of 14000.00
" " Machinery, Tools, & Equipment	2%	
" " Horse & Wagon	2%	
" " Furniture & Fixtures	1%	
Reserve for Bad Debts—on Accounts Receivable	2%	

Charge three-fourths of the delivery expense to Selling and one-fourth to Manufacturing. Charge three-fifths of the insurance and of the taxes to Manufacturing and two-fifths to Selling.

Exercise 89. Make the necessary entries to close the books in Exercise 88.

Keep your entries until you have worked Exercise 90 in the next chapter.

REVIEW QUESTIONS

1. a) What is the object of the petty cash book? b) How are the entries made from it weekly?
2. To what account should freight on machinery bought be charged? Why?
3. How should real estate bought and paid for in cash and by a mortgage be entered?
4. What entry should be made for another's note, with interest, discounted?
5. What entry should be made for the corporation's note discounted?
6. a) What is the object of the Notes Receivable Discounted account? b) What entry should be made when a note that has been discounted is paid by the maker at the bank?
7. What entries should be made when a machine that has depreciated in value is sold and a new one purchased?
8. In what statement should each of the following accounts and inventories be placed, and why: Patents, Reserve for Bad Debts, Interest accrued on Mortgages Payable, an unpaid gas bill?
9. What entry is made when the business buys a patent to be used in manufacturing its product?
10. What entry is made at the end of the fiscal period for the proportionate part of the patent used?

CHAPTER XLI

DISTRIBUTION OF PROFITS

When the books of individual proprietors or of partnerships are closed, the balance of the Profit and Loss account is closed into the personal accounts of the proprietors and the balance of each personal account is closed into the capital accounts unless the balance is withdrawn. Each partner has a right to draw out his profits as soon as they are determined, or, if there is a loss, must suffer a diminution of his capital.

In a corporation, it is necessary to keep the profits or losses separate from the original capital stock. The chief reason for this is the fact that the stockholders have no right to the profits of the corporation until the board of directors vote a part or all of the profits as dividends. Then, each stockholder has a right which he can enforce against the corporation.

When the books are closed, the balance of the Profit and Loss account is transferred to the Surplus account, if a profit, by the following entry:

Profit & Loss
    To Surplus

If a loss, the transfer is to the Deficiency account, as follows:

Deficiency
    To Profit & Loss

By some, an Undivided Profits account is opened up to which the net profits are transferred. The balance of this account is transferred to Surplus.

Powers of the Board of Directors. The board of directors is given wide discretionary powers in the declaration of dividends. It may set aside a part or all of the profits for extensions, for unusual losses that may arise, to make up deficiencies, or for any other legitimate purpose. But so long as the directors do not misuse or misappropriate the profits of the business, the stockholders have no remedy.

Dividends. After statements have been made to show the net profits of the corporation, the board of directors meets and examines the statements, and determines whether a dividend is to be declared or not.

If the board of directors declares a dividend, it will be recorded in the *Minute Book*. The record will show the dividend declared, the date on which it is payable, and the date on which the transfer books are to be closed. The dividend is usually declared as a certain per cent of the par value of the stock outstanding, as, a 2% dividend or a dividend of $2 per share on a par value of $100 a share. Dividends may be declared at any time that the net profits have been determined, but are usually declared annually, semi-annually, or quarterly.

Entries for Declaration of Dividends. When the board of directors declares a dividend, the bookkeeper makes an entry like the following:

Surplus
To Dividend No. 10
5% dividend, per minutes of the board of directors, payable to stockholders of record, January 20, per minute book, page 25.

Each dividend is given a certain number by which it is known in the entries.

Closing the Transfer Books. When the board of directors declares a dividend, it sets a certain date for closing the transfer books. That means that during that time no transfers of stock can be made on the books but that the dividends will be paid to the stockholders as shown on the books at that time. The transfer books refer to the *Stock Transfer Book* and the *Stock Ledger*.

Payment of Dividends. When the dividends are payable, a dividend check is issued to each stockholder for the amount to which he is entitled. One entry is usually made on the Cash Payments for all the dividend checks as follows:

Voucher No. 405 per dividend book $2000

But one voucher is usually issued for all the dividend checks and charged to Dividend No. 10 in the Sundry Accounts column.

The amount each stockholder is to receive is shown in the dividend book like the illustration on page 302.

Stock Dividend. The dividends already explained have been cash dividends. Sometimes there have been profits sufficient to declare a dividend but to pay a cash dividend would impair the working capital of the business. Or, the cash may be needed for other purposes. Then, a stock dividend may be declared. To do this, the corporation must have treasury stock or unsubscribed stock on hand, or must increase its capital stock by an amendment to the charter.

The entry for the declaration of the dividend would be

Surplus
To Stock Dividend No. 2

The entry for the issue of the stock in payment of the dividend would be the following if unsubscribed stock was used:

Stock Dividend No. 2
    To Unsubscribed Stock

If treasury stock was used, it would be:

Stock Dividend No. 2
    To Treasury Stock

Responsibility of Directors. The directors are held to a strong legal responsibility in the declaration of dividends. A dividend cannot be declared and paid out of capital, but only out of *net profits* either of the current year or of accumulated profits of other years that have not been distributed as dividends or appropriated for other purposes. If the directors impair the capital by declaring dividends, they are personally responsible for the amount.

Many corporations prefer to pay a certain rate of dividend each year instead of paying a high rate one year and a low one the next. They can do this by accumulating a *surplus* in the most prosperous years.

Reserves. Whenever any part of the surplus is set aside and reserved so that it cannot be declared as dividends, it is called a reserve. This is done by a vote of the board of directors usually before a dividend is declared, but it may be done at any time that there is a surplus. The reserve account is given a name that indicates the nature of the appropriation. The reserve may be for something new, as, new buildings, new land, new machinery, etc. The entry would be:

Surplus
    To Reserve for New Buildings

or,

Surplus
    To Reserve for New Machinery

If the reserve is for the purpose of providing for unusual losses, for accidents, or for emergencies, the account would be Reserve for Fire Loss, Reserve for Renewals, Reserve for Accidents, etc.

The reserve may be for the purpose of setting aside from time to time out of profits amounts sufficient to meet an obligation maturing at some particular time. Of such a nature are *Sinking Fund Reserves* to take care of bonds at maturity. These will be explained in Chapter XLII.

Reserves Belonging to Profit and Loss. The reserves here considered are reserves that are a part of the distribution of profits. They must not be confused with reserves that must be set aside *before* net profits are found. Reserves of this nature may be a part of the manufacturing, selling, or general sections. They may be reserves for depreciation on buildings, machinery, etc., reserve for bad debts, etc. They are losses and must be deducted before net profits are found.

Exercise 90. The board of directors voted to set aside 10% of the net profits, as shown by the statements of Exercise 88, as a reserve for accidents, and declared a stock dividend of 2%.

Make the necessary entries for the reserve, for the declaration of the dividend, and for the payment of the dividend in stock.

Exercise 91. The A Mfg. Co. is incorporated for $50000, with all the stock outstanding. For the six months ending December 31, the net profits were $9375.45. The board of directors met and voted the following:

1. To set aside out of profits $2000 for improvements
2. To reserve $1000 for accidents
3. To declare a dividend of 6%

Make the necessary entries to do this and to pay the dividend.

Exercise 92. The Home Grocery Co. is incorporated for $100000. $75000 is fully paid up stock, the rest is held for future development. The net profits for the six months ending June 30 were $8850.75. The board of directors voted to set aside $5000 for new buildings. They also voted a stock dividend of 3%. Make the necessary entries to do this and to pay the stock dividend.

Exercise 93. The Fish Mfg. Co. is incorporated for $100000. $50000 is fully paid up 7% preferred stock. The balance is common stock, $40000 of which is fully paid up, the other $10000 being held for future development. For the year ending December 31, the net profits were $9125. The board of directors voted to set aside $3000 for new machinery, to pay the dividend on the preferred stock, and to pay as large a whole per cent of dividend as can be paid on the common stock.

Find the per cent to be paid on the common stock and make the necessary entries to record the action of the board of directors and the payment of the dividends.

SET IX, FEBRUARY (Concluded)

The board of directors at its meeting, March 4, voted to set aside out of surplus $500 for a reserve for accidents. It also declared a dividend of 1% on the capital stock outstanding. These acts are recorded in the minute book on page 10. The dividend is payable March 15.

Make the necessary entries to record the acts of the board of directors. The entry should be dated March 4.

On March 15, dividend checks would be written and sent to the stockholders.

Make out a dividend list showing the amount each stockholder should receive. Make but one entry in the voucher record and in the cash book for all the dividend checks issued.

CHAPTER XLII

BONDS AND FUNDS

A Bond is, in effect, a promissory note issued under seal by a corporation or by a governmental unit like a nation, state, county, or city.

A bond is usually issued for a much longer time than a note and contains a formal statement concerning the issue of the bonds and the security, and usually names a trustee to hold the security for the bondholders.

As to form and method of paying interest, bonds are *coupon* and *registered*.

Coupon Bonds are payable to the order of a person or to bearer, and are transferred by indorsement or delivery. They have attached to them coupons for each interest installment as it falls due. These coupons must be presented and surrendered when the interest is paid.

Registered Bonds are payable to a specified person whose name is registered in the books of the corporation or governmental unit. They must be transferred on the books to the name of the indorsee in order to make the transfer valid. Interest is paid in the same manner as interest on a note, to the holder whose name is registered on the books.

As to Security, bonds are usually named to indicate the kind of security back of the bonds, as, *first mortgage bonds, collateral trust bonds, income bonds,* etc.

The Object of issuing bonds is to secure money for some corporate purpose without giving to the lender a voting interest in the business and without paying as high a rate of interest as the rate of dividend on preferred stock. Since bonds are a direct obligation of the corporation, it is easier to secure additional capital in this way if the corporation has a good standing.

Bonds May Be Authorized by the stockholders or by the board of directors. After they are authorized, they are usually advertised for sale and subscriptions taken for them. When the bonds are ready for delivery the following entry is made for the authorized issue:

Bonds in Treasury
    To Bonds

When any of the bonds are sold at par, the entry is:

Cash
    To Bonds in Treasury

If the bonds are issued for property bought, such as, real estate, an entry would first be made debiting the property and crediting the seller. Then, the seller would be debited and Bonds in Treasury credited.

Discount or Premium on Bonds. If bonds are sold at a discount, the entry becomes

Cash
Discount on Bonds
    To Bonds in Treasury

If sold at a premium, it becomes

Cash
    To Premium on Bonds
        Bonds in Treasury

Bonds in Treasury represents bonds authorized but not issued. It represents the right of the corporation to sell bonds and receive cash or other assets for them. It is best shown on the balance sheet as a deduction from the liability of bonds, so as to show the actual outstanding bonds.

Discount on Bonds in Closing. The reason bonds are sold at a discount is because the rate of interest is not large enough to give the investor sufficient return for his money if they are sold at par. The discount is really interest paid in advance because if the bonds are not sold at a discount, the interest rate would be higher. Discount On Bonds should be carried on the books as a deferred asset and a proportionate amount deducted each year depending on the life of the bond.

If $100000 worth of bonds, authorized to run 20 years and bear interest at 5%, were sold at 90 the following entry would be made:

Cash	$90000	
Discount on Bonds	10000	
To Bonds in Treasury		$100000

Each year $5000 would be paid as interest on the bonds. The entry would be:

Bond Interest	$5000	
To Cash		$5000

But the $10000 discount represents interest paid in advance, one-twentieth of which should be borne by each year. The entry would be

Bond Interest	$500	
To Discount on Bonds		$500

The real charge to Profit and Loss would thus be $5500 yearly.

If bonds are sold at a premium, it is because the rate of interest is high considering the financial standing of the corporation. The

premium received should be considered as a reduction of the interest charge from year to year by the following entry:

Premium on Bonds
To Bond Interest

Very often if the discount or the premium is small, it is all charged to Profit and Loss in one year.

When the bonds are due and canceled the entry is:

Bonds
To Cash

In order to provide for the payment of bonds as they mature, some provision should be made for the setting aside of such a sum each year so that at maturity sufficient cash or other assets will be on hand to take up the bonds. This is usually called a *Sinking Fund.*

A Fund is a sum of money or other assets set aside for some definite purpose. The reserving of profits for any purpose, such as, for new buildings, for extensions, etc., is not a fund. But taking profits in the form of money or other assets out of the ordinary assets of the business and putting them in a particular place constitutes a fund. This fund may be in the form of a savings account or in the form of a fund deposited with a trust company or other trustee.

A Fund Account is always an asset, as it represents assets that have been set aside. The fund, when set aside for the purpose of securing the payment of money to creditors, is usually given into the hands of a trustee of the fund. Such a fund for the purpose of securing the holders of the bonds of a corporation is called a *Sinking Fund.*

Sinking Fund. The trustee of a sinking fund periodically receives cash from the corporation according to the terms of the issue of the bonds and the conditions of the trusteeship. The trustee usually invests the money in approved securities and adds the interest received from them to the fund itself. The entry that is made when the money is turned over to the trustee is:

Sinking Fund
To Cash

The interest received on the securities will be entered as follows:

Sinking Fund
To Sinking Fund Interest

In this way, much less need be set aside than the proportionate amount found by dividing the amount of the bond issue by the number of years that they have to run. For example, suppose that a company has issued $250000 worth of 20-year bonds, bearing interest at 5%. If the proportionate amount were set aside, $12500 would be necessary yearly. But if the money set aside each year can be invested so as to yield 4%, only $8395 would be necessary yearly.

Other Funds. A corporation may set aside a fund for some purpose that concerns the business itself. In that case the fund is usually in the form of a savings account, a special account in the bank, or stocks or bonds kept for a specific purpose, and usually remains in control of the corporation itself. Such a fund would be an Accidents Fund, a Building Fund, an Insurance Fund, an Employers' Liability Fund. When money is needed for the purpose for which the fund was created, Cash is debited and the fund account is credited.

Exercise 94. May 1. The C. Jackson Motor Co. has voted to issue $500000 First Mortgage 4% bonds to run for 20 years, interest payable semi-annually.

May 10. $30000 of these bonds have been subscribed for and sold at par for cash.

June 15. The balance of the bond issue has been sold for cash at 90.

Make the necessary entries.

Exercise 95. The C. Jackson Motor Co. pays the semi-annual interest on November 1, according to the conditions given in Exercise 95.

Make the necessary entry.

Exercise 96. In making statements for the C. Jackson Motor Co., on December 31, according to the conditions given in Exercises 94 and 95, what will be the loss on these bonds that should be charged to this year's business? What entries should be made to show the loss sustained?

The accrued interest from November 1 must be considered as an inventory and an entry must be made for the proportionate part of the discount used.

Exercise 97. The books of E. B. Foster & Co. are out of balance. You are employed to find the amount of the difference, to make whatever corrections can be made, and to make an adjusting entry to make the books balance. The books of entry have been destroyed but the following information is obtained from other sources: Cash on hand and in the bank amounts to $13285.90; from the invoices on file, the total purchases are found to be $13386.40; from the duplicate sales, the total sales are found to be $11218.20. The posting of the cash book and of the journal has been completed, both the daily and monthly posting. The purchase book and sales book have been posted daily but not in total. The accounts on the general Ledger show the following balances: Capital Stock, $50000; Surplus, $1478.60; Treasury Stock, $5000; Raw Material, $8550; Factory Expense, $212.40; Accidents Savings Fund, $575; Heat, Light, and Power, $378.90; Insurance, $136.80; Freight In, $272.40; Freight Out, $56.30; Land and Buildings, $20000; Machinery, $5784.20; Reserve for Depreciation on Machinery, $115.68; Reserve for Depreciation on Buildings, $200; Reserve for Accidents, $575; Reserve for Bad Debts, $102.50; Sales, Dr., $210.40; Mortgages Payable, $8000; Delivery Equipment, $1275; Notes Receivable, $3265.75; Notes Payable, $412.60; Notes Receivable Discounted, $1236.50; Accounts Receivable, $5375.80; Accounts Payable, $3213.25; Stable Expense, $112.80; Selling Expense, $238.25; Salaries, $275; Interest, Dr., $38.90; Office Expense, $137.80; Discount on Sales, $124.30; Discount on Purchases, $311.75.

a) Make the necessary entries for the posting of the totals that have not been posted, and include them in the proper accounts.

b) Arrange the accounts in a trial balance in the proper order. You are instructed to place the difference between the two sides in the Adjustment account. Your knowledge of accounts should tell you on which side of the trial balance to place the amount of each account.

REVIEW QUESTIONS

1. a) What is meant by a dividend? b) Who has the power to declare a dividend?
2. Must a dividend be declared if there are sufficient profits? Explain.
3. If a corporation has a surplus from previous years and a loss for the current year, may a dividend be declared?
4. What entry should be made when a cash dividend is declared?
5. What entry should be made when a cash dividend is paid?
6. a) What is a stock dividend? b) How do the entries for a stock dividend differ from those of the ordinary cash dividend?
7. What entries should be made if the board of directors votes to reserve a part of the profits for accidents, a part for new buildings, and a part for loss by fire?
8. a) What is the effect of a liability inventory in Productive Labor? b) How is it entered on the books?
9. a) What is the effect of an inventory of interest accrued on Notes Payable? b) Of discount paid in advance on Notes Receivable?
10. a) What is the effect of an inventory of motor truck supplies on hand? b) How is it entered on the books?
11. a) What is a bond? b) How does it differ from a note?
12. Distinguish between coupon and registered bonds.
13. a) What entry is made when bonds are authorized? b) What entry is made when bonds are issued?
14. What entry is made when bonds are sold at a discount?
15. What entry is made when bonds are sold at premium?
16. How should Discount on Bonds be treated when closing the books?
17. What entries should be made when bonds are issued for property bought?
18. a) What is a fund? b) Describe funds for at least three different purposes.
19. What entry is made when a fund is created?
20. What entry is made when money is taken from the fund for the purpose for which it was created?

MISCELLANEOUS QUESTIONS AND PROBLEMS

1. a) What entry should be made when money is stolen from the business? b) What entry should be made when money is embezzled by an employee?
2. What entry should be made when a delivery horse dies?
3. What entry should be made when merchandise is destroyed by fire?
4. What entry should be made when insurance is received for loss on merchandise?
5. A company has at the end of a fiscal period set up a reserve for bad debts. During the next year, it loses an account of the Dobbs Machinery Co. amounting to $680. What entry should be made?
6. What entry should be made when a debtor becomes bankrupt and pays 75c on the dollar?
7. A company finds after its books have been closed that the inventory of finished goods has been incorrectly computed. The inventory should have been $1000 less. How would you adjust it?
8. A corporation borrows $10000 from a bank on its note, at three months, at the discount rate of 5%. It gives as security for this loan 150 shares of stock of the C. & N. W. R. R. Co., of a par value of $100 per share and a market value of 121½. What entries would be made?

9. Suppose that in problem 8, the corporation cannot pay the $10000 at maturity and that the bank sells the stock at 118½. It deducts the amount of the debt and $25 expenses and returns the balance to the corporation. What entries should be made?

10. A corporation has discounted C. Berg's note for $1000, payable 60 days after May 9, and bearing interest at 6%, at the First National Bank. At maturity, the maker cannot pay it, and the corporation pays it by voucher check in favor of the bank, including interest and protest fees, $1.25. Make the necessary entries.

11. What would be the advantage of using Notes Receivable and Notes Payable books as books of entry instead of as auxiliary books?

12. How should the Notes Receivable and Notes Payable books be posted daily and monthly if these books were used as books of entry?

13. The present market value of raw material is higher than the cost. At what price should it be inventoried? Why?

14. The present market value of raw material is below cost. At what price should it be inventoried? Why?

15. A factory that manufactures wire fence, manufactures also the machines that make the wire fence, both for its factory and for other factories. At what price should a machine of this kind manufactured and used by the same company be charged? Should it be the cost to manufacture, the selling price to other factories, or a price between these two?

16. A retail store has four departments; hardware, stoves and ranges, farm implements, and automobile supplies. Cash sales are kept by departments and entered in the cash book only. The purchase book and sales book are kept by departments. Three ledgers are used. The business receives many notes on account of sales of farm implements and discounts these notes at the bank. All payments are made by check but the voucher system is not used. Draw up books of entry suitable for this business and make entries in them to show that you understand their use. Then show the closing of each of these books of entry.

17. The sales of merchandise for a year amounted to $13750; the purchases amounted to $9325; the inventory on hand at the beginning of the year amounted to $7386. Find the inventory at the end of the year if the sales were made at a profit of 20%. Show the Merchandise Trading account closed.

18. A business shows a profit of $3125 for the year, and a net worth at the end of the year of $7394.50. What was the capital at the beginning of the year if there were withdrawals amounting to $500?

19. The business of Hiller & White shows a profit for the year of $3762.50. They are equal partners. Hiller's net worth is $1276 after his share of the profit has been entered and White's is $1125.80. Hiller withdrew during the year $450, and White, $350.

Find the condition of each account at the beginning of the year and show each capital account closed.

20. The C. L. Landers Mfg. Co. has sustained losses by fire, as follows: Raw Material, $1375.60; Finished Goods, $1998.25; Machinery, $3750; Buildings, $5250. The insurance company has settled for the insurance and paid cash as follows: Raw Material, 80%; Finished Goods, 80%; Machinery, 70%; Buildings, 75%. There is on the books an unexpired premium of $135.80, of which $62.70 is lost on account of the fire. There are also accounts for Depreciation on Machinery for $150 on a total valuation of $7500, and for Depreciation on Buildings amounting to $250, on a total valuation of $12500.

Make the necessary entries to adjust the fire loss.

In making the entries for this problem, the depreciation on the assets that were destroyed must be taken out of the Depreciation accounts and placed in the asset accounts. The final entries should be made in such a way as to leave in the asset accounts the cost value of the assets remaining after the loss by fire.

APPENDIX

ANOTHER METHOD OF KEEPING THE BANK ACCOUNT

The most common method of keeping a bank account has been given, but many accountants and bookkeepers prefer a different method based on the statements rendered by banks at the end of each month.

When a bank renders a statement of account to a depositor at the end of the month, the sum of the balance at the beginning of the month and of the deposits during the month is shown in one column. In another column, the checks are listed in detail and the total found. Then, the balance is found by deducting the total checks from the sum of the balance at the beginning of the month and the deposits during the month.

Because of this method of making out the bank statement, it is very desirable to show the results in the check book in the same way. If this is done, as in the illustration on page ii, deposits, including collections and notes discounted, would be entered on the left check stub only. Each deposit would be added to the amount already deposited, and at the foot of each left check stub, the total would be forwarded to the top of the next left check stub. At the end of the month, the total shown on the last left check stub should agree with the sum of the balance and the deposits on the bank statement.

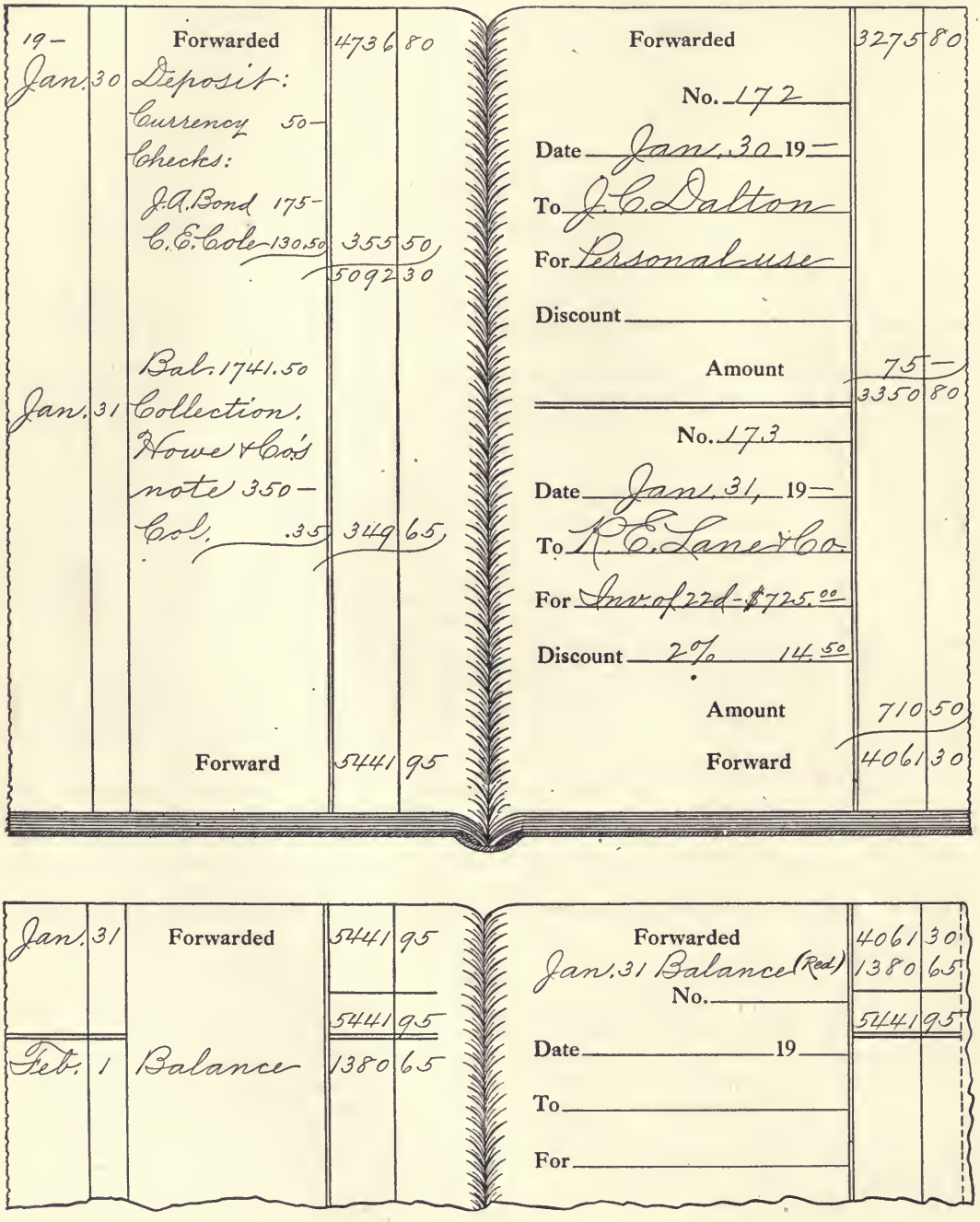
In the same way, on the right check stub, the amount of each check is added to those previously written during the month and the total of each page of the right check stub is forwarded to the top of the next right check stub. Nothing is entered on the right check stub but checks, and notes and drafts charged. At the end of the month the total on the right check stub should agree with the total checks on the bank statement, unless some of the checks issued have not yet been paid by the bank. This can easily be proved by reconciling the bank statement with the check book.

In proving cash at any date during the month, the difference between the total deposits, including the balance at the beginning of the month, and the total checks for the month is found. If desired, the balance may be inserted in the explanatory column of the left check stub like the illustration, but the two stubs must not be balanced till the end of the month.

At the end of each month, the two stubs are balanced and the balance brought down below the ruling on the left check stub, like the illustration on page ii. This balance is the only amount from the previous month that should be used for the next month. As has been explained, it must agree with the balance on the bank statement, unless there are checks outstanding which have not yet been paid by the bank.

Although this method is not as simple for the beginner as the method of adding deposits and subtracting checks, it is preferred by many because it is easier to compare the results at the end of the month with the bank statement, it is easier to check results with the cash book, and also because most persons make fewer mistakes in adding than in subtracting.

METHOD OF KEEPING THE BANK ACCOUNT



SUPPLEMENTARY SET A—A THEORY SET

This set is intended to be used as a review of Set VI, or it may be used to precede Set VII.

Enter the following transactions on manuscript paper used for the books of entry as in Set VI. Use the purchase book (left side only), the sales book, the two-column journal, and the columnar cash book with columns for Amount to be Credited, Merchandise Discount Dr. and Cash Received on the Receipts side, and for Amount to be Debited, Expense, Merchandise Discount Cr., and Cash Paid on the Payments side.

February 1. Robert Davis and James Sanborn have today formed a copartnership under the firm name of Davis & Sanborn, to engage in the Wholesale Dry Goods business at 210 Grand Avenue.

Robert Davis invests the following: Stock of dry goods, inventoried at $4735.75; office and store fixtures, inventoried at $125; account of C. S. Lowe, $1781.50; account of J. A. Roth, $525.75; cash, $1939.50. He owes the following, which the business assumes: Account owed D. Evans & Co., $642.50; note in favor of National Exchange Bank, dated December 15, payable 90 days after date, for $5000.

James Sanborn invests the following: C. E. King's note for $2000, dated January 2, payable 60 days after date, with interest at 6%; 5 tons coal at $6.25; two C. M. & St. Paul bonds at par, $2000; cash, $2039.65; He owes the following, which the business assumes: account owed D. E. James, $785.90; note favor First National Bank, dated January 14, payable 30 days after date, for $2500.

Wherever discount is to be computed, it should be at 6%.

It is also agreed that the partners shall share profits and losses in the following proportion: Robert Davis, three-fifths; James Sanborn, two-fifths. It is further agreed that each partner shall be credited monthly with $125 salary, which is to be charged to the expenses of the business. Each partner's withdrawals are, by agreement, limited to $125 a month.

February 2. Paid the Russell Real Estate Co. for rent of store for one month, $100.

February 3. Bought a typewriter of the Office Sales Co. for cash, $75.

Bought an invoice of dry goods of J. A. Scott & Co., on the terms, 2/10, n/30, for $1725.

February 4. Bought office books and stationery of H. H. West & Co. for cash, $25.75.

Bought an invoice of dry goods of M. N. Moser & Co., for $2375.60, and accepted their 30-day draft in payment.

February 5. Sold C. L. Weeks, on account, 30 days, 25 pc. taffeta ribbon at $1.75; 225 yd. French gingham at 12½c; 24 doz. ladies' kid gloves at $9.75.

Insured the stock of dry goods and the store fixtures for $9500, for one year, at the rate of 65c for each $100.

Sold H. M. Marks, 2/10, n/30, 425 yd. bleached sheeting at 11c; 30 doz. ladies' lisle hose at $2.75; 515 yd. organdie at 23c.

Open accounts in a manuscript ledger, three on a page, and post the entries that have been made. Hereafter you will post at the end of each week's work.

February 7. Sold C. A. Austin, on the terms, sight draft for $200, balance on account, 850 yd. nainsook at 10½c; 625 yd. art ticking at 17c; 25 doz. ladies' linen handkerchiefs at $1.85.

Sold B. L. Lane, 3/5, 2/10, n/30, 325 yd. taffeta silk at 95c; 25 doz. men's cotton hose at $1.75; 475 yd. serge dress goods at 75c.

Bought a delivery truck of the Foster Truck Co. for $1375, on the terms: cash, $500; balance, on account, 30 days.

Returned to J. A. Scott & Co., 12 doz. ladies' silk hose and received credit for them at $2.45.

Paid freight bill on incoming goods, $78.25.

February 8. Bought an invoice of dry goods of the Norris Dry Goods Co., for $2416.75. Gave my note at 30 days, with interest at 6%, for $1500, in part payment.

Insured the delivery truck for one year for $1000, at the rate of 75c for each $100 in the risk.

Sold D. L. Marsh & Co., 2/10, n/30, 125 yd. cluny lace at $1.65; 25 doz. pair ladies' silk gloves at $8.75; 725 yd. cambric at 12½c.

Contracted for a display advertisement in the Daily Press, and paid cash for it, $57.50.

February 9. Bought an invoice of dry goods of O. M. Rice & Co., 2/15, n/30, for $936.20.

C. A. Austin returned 5 doz. ladies' linen handkerchiefs for which we gave him credit at $1.85.

Bought of the Adams Supply Co., 50 gal. gasoline at 18c and a can of oil for 75c, for cash.

Discounted at National Exchange Bank, at 6%, the note of C. E. King, received on the first as a part of James Sanborn's investment.

February 10. Sold C. N. Barlow & Co., on account, 30 days, 425 yd. percale at 8½c; 615 yd. India linen at 15½c; 540 yd. organdie at 27c; 235 yd. wool voile at 72c.

Sold J. A. Cone, on the terms, draft with bill of lading attached, 60 doz. ladies' silk hose at $3.85.

The bank reports the sight draft for $200, drawn on C. A. Austin, on the 7th, collected. Collection charge, $\frac{1}{10}$%.

February 11. Paid the balance of the invoice bought from J. A. Scott & Co. on the 3d.

Received of C. L. Weeks, his note at 30 days, for $150, on account.

Sold C. N. Simpson & Co., 2/10, n/30, 75 pc. satin ribbon at $1.95; 385 yd. wash silk at 47½c; 225 yd. serge dress goods at 85c. On their order the goods were shipped to B. N. Willis and the freight, amounting to $24.25, was prepaid and charged to C. N. Simpson & Co.

February 12. Received of B. L. Lane, cash, for his invoice of the 7th, less discount.

Received of C. N. Barlow & Co., their note at 30 days, for $250, on account.

Paid D. Evans & Co., cash, in full of account, $642.50.

Bought an invoice of dry goods of D. N. Newton & Co., on account, 30 days, for $1850.

Post the entries made the past week.

February 14. Sold N. A. Jackson, 2/10, n/30, 360 yd. cotton voile at 26½c; 20 pc. velvet ribbon at $2.65; 345 yd. corduroy at 72c.

Received of C. S. Lowe, cash, on account, $500.

Returned to O. M. Rice & Co., 75 yd. wash silk for which we received credit at 35c.

February 15. Sold B. L. Dewey 175 yd. wool voile at 75c. Gave the shipment to the American Express Co. to collect on delivery.

Received cash of H. M. Marks for the invoice sold him on the 5th, less discount.

Paid $5 for postage stamps.

February 16. Each partner withdrew $50 from the business for personal use.

Received of J. A. Roth, cash, on account, $400.

The Norris Dry Goods Co. has agreed to cancel our note for $1500 on receipt of a check for the face of the note and the interest to date. The payment has been made.

Sold C. A. Francis, 2/10, n/30, 25 doz. ladies' kid gloves at $11.75; 18 doz. men's kid gloves at $13.25.

February 17. Bought 6 tons of coal of the City Coal Co. at $6.15, and paid cash for it.

Received of C. L. Weeks, cash, on account, $100.

February 18. Received of D. L. Marsh & Co. cash, for invoice of the 8th, less discount.

The bank reports the draft with bill of lading attached, on J. A. Cone, given to the bank on the 10th collected. Collection charge, $\frac{1}{10}\%$.

Paid $12.50 for repairs to the delivery truck.

February 19. Received of C. N. Simpson & Co., cash, for invoice of the 11th, less discount, and for the charge of the same date.

Sold D. N. Stoner, on account, 30 days, 40 pr. battenberg curtains at $7.75; 50 doz. men's silk hose at $3.85.

Received of C. S. Lowe, cash, on account, $1000.

Post the entries made the past week.

February 21. Sold C. A. Austin, on account, 30 days, 350 yd. bleached sheeting at 12c; 560 yd. bleached cheesecloth at 5½c; 725 yd. unbleached muslin at 7½c.

Sold C. L. Weeks, on account, 30 days, 30 doz. ladies' silk gloves, at $8.15; 15 pc. satin ribbon at $1.62½. Received cash, $100, in part payment.

The C. N. Hine Dry Goods Co. has offered us a stock of silks at a bargain for cash. The offer has been accepted and the cash, $1785 paid.

February 22. Paid cash for a new tire for the delivery truck, $32.50.

Received of the American Express Co. the returns from the sale to B. L. Dewey on the 15th. The express company charged 75c collection.

Sold D. E. Cooper, 3/5, 2/10, n/30, 45 doz. boys' cotton hose at $1.75; 65 doz. girls' cotton hose at $1.60.

Sold C. A. Ellis on note at 30 days, 375 yd. wash silk at 42½c; 435 yd. foulard at 65c. The note is received with the order.

February 23. Paid D. N. Newton & Co., cash, on account, $1000.

Received of C. A. Austin, cash, on account, $50, and of N. A. Jackson for invoice of the 14th, less discount.

Sold F. L. Cole, on account, 30 days, 415 yd. nainsook at 12½c; 360 yd. longcloth at 10½c; 525 yd. ticking at 14c.

Sold C. N. Barlow & Co., on account, 30 days, 125 pr. net curtains at $2.35; 75 pr. scrim curtains at $1.15.

February 24. Discounted our note for $1200, payable 60 days after date, at the National Exchange Bank at 5%. Gave the two C. M. & St. Paul bonds (par $2000) as security for the loan.

Make a memorandum of the security in the journal and make a note of it in the Bonds account in the ledger.

Paid Norris Dry Goods Co. cash, on account, $800.

Paid for repairs to the office furniture, $4.50.

Paid O. M. Rice & Co. the balance of the invoice of the 9th, less discount.

February 25. Sold J. L. Finch & Co., 2/10, n/30, 15 pc. taffeta ribbon at $1.95; 250 yd. foulard at 62½c; 36 pr. net curtains at $2.65.

Paid $2.50 for postage stamps.

Sold S. L. Stevens, for cash, less 3%, 16 doz. ladies' kid gloves at $8.95; 25 doz. ladies' silk hose at $2.85.

Paid D. E. James, cash, on account, $500.

February 26. Received cash of C. A. Francis, for invoice of the 16th, less discount.

Received cash of D. E. Cooper for invoice of the 22d, less discount.

Received of C. N. Barlow & Co., cash, on account, $100.

Bought an invoice of dry goods of O. M. Rice & Co., for $1275.60. Accepted their 60-day draft for $500, in part payment.

Sold B. L. Lane, 3/5, 2/10, n/30, 315 yd. foulard at 62c; 18 pc. taffeta ribbon at $1.89.

February 28. Paid salaries as follows: bookkeeper, $60; salesman, $60; deliveryman, $55.

Paid freight bills in cash, $127.75.

Make an entry to transfer $28.50 of the delivery expense to purchases. Credit each proprietor for a month's salary according to the articles of copartnership.

Post the entries made.

CLOSING WORK

1. Close the books of entry and post them.
2. Take a trial balance.
3. Use the following inventories and make Trading and Profit and Loss statements: Merchandise inventory, including freight on goods unsold, $10763.20; Expense inventory, $24.35; Furniture and Fixtures, 1% depreciation; Delivery Equipment, 2% depreciation; Insurance, unexpired, $64.50; Advertising, unused, $17.25; C. M. & St. Paul Bonds, at par.
4. Make a statement of assets and liabilities.
5. Open a Merchandise Trading and a Profit and Loss account, and close all accounts.
6. Take a proof trial balance of the ledger after closing.
7. Submit all of your papers to your teacher for correction.

SUPPLEMENTARY SET B—A THEORY SET

This set may be used to precede Set VII.

Enter the following transactions on manuscript paper used for the books of entry as in Set VII. Use the purchase book (left side only); the sales book or sales journal; the four-column journal with columns for Accounts Payable, General Dr., General Cr., and Accounts Receivable; and the columnar cash book with columns for General, Accounts Receivable, Sales Discount, and Cash Dr. on the Receipts side, and for General, Expense, Accounts Payable, Purchases Discount, and Cash Cr. on the Payments side.

March 1. John Myers and Albert Thomas have today formed a copartnership under the firm name of J. Myers & Co., to engage in the wholesale furniture business at 315 Front St.

John Myers invests cash, $6000, and Albert Thomas invests cash, $3000. It is agreed that John Myers shall share two-thirds of the profits or losses, and Albert Thomas, one-third. It is further agreed that John Myers shall be paid $100 salary monthly and Albert Thomas, $75 monthly, both to be charged to the expenses of the business. Neither partner shall withdraw anything from the business.

March 2. Paid Goodwin Realty Co. for rent of store for one month, $75.

March 3. Bought an invoice of furniture of J. N. Bradley & Co., on the terms, account, 30 days, for $2375.80.

March 4. Bought a typewriter of C. L. Carey & Co., for cash, $85.

March 5. Sold D. E. Morton, 2/10, n/30, an invoice of furniture, $613.75.

Paid for postage stamps, $3.

Bought an invoice of furniture of J. A. Everts & Co. for $1825.60, and accepted their 30-day draft in payment.

March 7. Took furniture valued at $125.75 from the stock for office furniture.

Insured the stock of furniture and the office furniture for $4000, for one year, at the rate of 70c for each $100.

March 8. Sold F. N. Simmons an invoice of furniture amounting to $875.80 and received his note at 30 days, with interest at 6%, for $500, in part payment.

Returned furniture invoiced at $47.80 to J. N. Bradley & Co., and received credit for it.

March 9. Bought a delivery truck of the Davis Truck Co. for $1150. Paid cash, $600, and gave a note at 30 days for the balance. (The account for the Davis Truck Co. should be opened up in the general ledger).

March 10. Sold C. D. Foss, on account, 30 days, an invoice of furniture amounting to $436.50.

March 11. Bought gasoline of the Auto Supply Co. for cash, $10.50.

Paid freight bill on incoming goods, $142.75.

March 12. D. E. Morton returned furniture invoiced at $37.25, for which we gave him credit.

March 14. Sold L. N. Perry, on account, 30 days, an invoice of furniture, $712.20.

Bought an invoice of furniture of the C. L. Barton Furniture Co., on the terms, 2/10, n/30, for $2156.35.

March 15. Received of D. E. Morton, cash, for the balance of the invoice of the 5th, less discount.

March 16. Sold H. L. Ray, 2/15, n/30, an invoice of furniture for $527.75.

March 17. Paid J. N. Bradley & Co. cash, on account, $500.

March 19. Received of F. N. Simmons, cash, on account, $200.

March 21. Paid cash for 5 tons of coal at $4.85.

March 22. Bought a store building and lot of Bolton Realty Co., for $12500. Paid cash, $6000, and gave a note at six months, with interest at 5% for the balance.

March 23. Bought an invoice of furniture of D. E. Warner & Co., on the terms, 2/10, n/30, $1273.90.

March 24. Paid C. L. Barton Furniture Co. for invoice of the 14th, less discount.

March 26. Sold C. E. Willis, on account, 30 days, an invoice of furniture, $473.75.

March 29. Received of H. L. Ray, cash, for invoice of the 19th, less discount.

March 31. Paid salaries as follows: John Myers, $100; Albert Thomas, $75; Charles Case, deliveryman, $60.

CLOSING WORK

1. Open a general ledger, a purchase ledger, and a sales ledger. Put four accounts on a page.
2. Close the books of entry and post them.
3. Make a proof of the sales ledger.
4. Make a proof of the purchase ledger.
5. Take a trial balance of the general ledger.

SINGLE ENTRY

Development of Single Entry. The first necessity that arose for a record of a business transaction was when something was bought or sold on account. The proprietor found it necessary to keep some record showing with whom he had the dealings, whether a purchase or a sale, the amount, and when it should be paid. This record was first a very temporary one kept on slips of paper and torn up when the indebtedness was canceled. A more permanent record was found necessary and the *day book* was introduced.

The Day Book. The day book was at first used to record all transactions with persons. The form of the entry at first was simply a brief statement of the transaction in the form of a sentence or clause, as, "Sold Brown & Co. an invoice of goods, terms 30 days, for $450," with the items sold recorded underneath. The object of this record was to show the indebtedness of Brown & Co. to the business.

In this form of entry, frequently no ledger was used, but the indebtedness was simply marked paid on the day book. This was a very crude form of entry and soon was replaced by a more formal one which was transferred to a ledger. The formal entry would be as follows: "Brown & Co., 30 days, Dr. $450," with the items sold detailed underneath.

The principal object of single entry is to show what others owe the business and what the business owes others. Accounts are kept with persons only. For that reason, each entry has simply one effect, a debit or a credit effect. No accounts are kept with impersonal accounts, whether real or nominal.

Single Entry Contrasted with Double Entry. Because of the fact that single entry keeps a record of personal accounts only and shows a debit or a credit effect, it differs from double entry in these particulars.

1. No matter what books of entry are used, each entry has but one effect.

2. No trial balance can be made and no proof of the correctness of the ledger can be made without a great deal of difficulty.

3. Since no nominal accounts are kept, no statement of the profits and losses of the business can be made. The profit or the loss can be found in total only.

4. There can be no proof of the correctness of the results as in double entry.

5. Cash transactions, whether for a real or a nominal element are entered in the same way, as, a motor truck, a real element, and gasoline for it, a nominal element.

Disadvantages of Single Entry. As a system of keeping accounts it is not adapted to any but a small business in which the transactions are chiefly for cash. Competition in modern business makes it necessary to have detailed information in reference to purchases, sales, and itemized expenses. Single entry can furnish but little information of this character.

It may be used by executors, assignees, and trustees where the object is to account for certain assets and liabilities without carrying on a business.

Books of Entry. Most single entry bookkeepers use the *day book* or *journal* and the *cash book*. Many also use the *sales book*, and a few use the *purchase book* also. A *bill* or *note book* may also be used as an auxiliary book. In this set the *journal*, *cash book*, and *sales book* will be used.

The Journal. The form of the journal is the ordinary two-column journal except that the first amount column is used for items and the second for the amount to be posted.

Model Journal

Milwaukee, Wis., January 1, 19—

	I, C. D. Simonds, have this day begun business, investing the following:					
1	C. D. Simonds	Cr.			4000	—
√	Cash	On hand	3500	—		
√	Mdse.	Per inventory	500	—		
	3.					
3	James Saunders	Cr.			1275	—
	Invoice on account, 10 days					
	4.					
4	David Logan	Dr.			500	—
	Our note at 30 days, with interest at 6%					
5	P. D. Arndt	Cr.			6	50
	2 bbl. Apples returned					

The Cash Book. The single entry cash book is similar to a two-column cash book in double entry. No entries are posted except those

that pertain to personal accounts. All other entries are checked. All cash transactions are entered in the cash book *only*.

Model Cash Book

Cash Receipts

19—							Left Page	
Jan.	1	√	C. D. Simonds	Investment	3500	—		
	3	√	Merchandise	Cash sales	37	25		
	6	5	J. L. Merz	On account	100	—		
	8	6	D. E. Kramer	Invoice of the 3d	215	—		
	9	6	C. J. Ford	On account	200	—		
	10	√	Merchandise	Cash sales	62	85		
	15	√	Notes Receivable	S. N. Cook's note	75	—	4190	10
							4190	10

Cash Payments

19—							Right Page	
Jan.	1	√	Office Furniture	Desk and chair	38	95		
	3	√	Merchandise	Invoice of D. Jasper	218	25		
	5	√	Horse and wagon	One horse	115	—		
	6	√	Expense	Office books	9	50		
	7	8	Lincoln & Co.	On account	500	—		
	8	√	Mdse. Discount	On D. E. Kramer's inv.	4	30		
	10	√	Horse and Wagon	1 delivery wagon	145	—		
	12	8	E. Gates & Co.	On account	250	—		
	14	1	C. D. Simonds	Personal use	50		1331	—
	15		*Balance*	*On hand*			*2859*	*10*
							4190	10

SET X—SINGLE ENTRY

The Object of this set is to give the student a knowledge of how books are kept by single entry and to show him the method of changing the books to double entry.

No business papers will be made out as the student has had sufficient drill in that kind of work.

The student should remember that in entering the transactions he should take great care to show in the journal whether the account is to be debited or credited and to show in the cash book whether the account is to be posted or not. No trial balance can be taken and there is no good proof that the entries have been posted correctly, so great care should be taken to post the entries correctly. It is advisable to check all the posting before attempting to find the net results of the business.

March 1. James Hunter began a General Produce business investing cash, $3000; a stock of goods, $920; and C. E. Paul's note at 30 days, dated February 25, with interest at 6%, for $1080.

In single entry, the interest on a note is rarely counted as a part of the investment. You will make the entry without using the accrued interest.

Make the entry similar to the first entry in the Model Journal. Then enter the cash in the cash book in the usual way. The entry in the cash book should be checked in the folio column.

The proprietor leased a store room and paid $30 for one month's rent.

Bought office books to keep the accounts by single entry, $9.25.

March 2. Paid Henry Stevens $25 for remodeling the store room.

Bought an office desk and chair of Johnson & Co., for cash, $52.50.

Bought of C. E. King, Chicago, on the terms, 2/10, n/30: 500 bu. Potatoes at 60¢; 200 bbl. Apples at $3.15.

March 3. Paid City Carting Co. for drayage on goods, $10.50.

Sold Geo. Harding, on account, 30 days:

20 bbl. Apples at $3.75

March 4. Bought a horse of E. C. Case for cash, $140.

Bought a delivery wagon and harness from the Thomas Mfg. Co., on account, 30 days, for $150.

Sold Jas. Wilson, on account, 30 days:

25 bbl. Apples at $3.95

125 bu. Potatoes at 80¢

March 5. Bought of E. C. Hamilton & Co. on account, 30 days: 50 bbl. Sugar, 15750 lbs., at 5¢.

Sold H. L. Metcalf, City, on account, 30 days:

80 bu. Potatoes at 78¢

8 bbl. Sugar, 2480 lbs., at 6¢

March 6. Cash sales for the week, $31.75.

For convenience cash sales are given and entered weekly instead of daily.

March 8. The proprietor withdrew $15 for personal use.

Paid Western Coal Co. $8.50 for two tons of coal.

March 9. Received of Geo. Harding, on account, $50.

Paid for horse feed, $15.75.

March 10. Sold C. O. Leonard, on account, 10 days:

30 bbl. Apples at $3.95

75 bu. Potatoes at 79¢

Insured the stock of goods, the furniture and fixtures, and the horse and wagon for $3000. Paid the premium for one year at the rate of 80¢ for each $100 in the risk.

H. L. Metcalf returned 6 bu. potatoes as unsatisfactory, for which we gave him credit, $4.68.

March 11. Sold E. C. Havens, on account, 30 days:
45 bbl. Apples at $3.92
125 bu. Potatoes at 77¢
Sold Wm. Marshall on the terms, 2/10, n/30:
12 bbl. Sugar, 3780 lbs., at 6¼¢
March 12. Paid C. E. King for invoice of March 2, less discount.
Paid personal grocery bill of the proprietor from the business cash, $17.25.
Received Jas. Wilson's note at 30 days, on account, $100.
March 13. Sold E. J. Parks on the terms, 2/10, n/30:
35 bbl. Apples at $3.95
15 bbl. Sugar, 4680 lbs., at 6¼¢
Paid clerk's wages for two weeks, $18.
Cash sales for the week, $42.80.
March 15. Paid for circular letters for advertising the business, $9.25.
Paid for stamps, $5.
Bought of D. C. Pond, Syracuse, N. Y., on account, 30 days: 250 bbl. Salt at $1.05.
March 16. Received cash of Jas. Wilson, on account, $150.
Paid cash for repairs to wagon, $3.50.
Paid E. C. Hamilton & Co. cash, $250, and gave a note at 30 days with interest at 6% for $300, on account.
March 17. Sold John Ford, on account, 30 days:
20 bbl. Salt at $2.35
25 bbl. Sugar, 8000 lbs., at 6⅛¢
Received of C. O. Leonard, cash, on account, $125.
March 18. Bought of J. C. Conder & Co., La Crosse, Wis., on the terms, 2/10, n/30: 600 bu. Potatoes at 58¢.
Paid proprietor's coal bill from the business cash, $16.
March 19. Sold Geo. Harding, on account, 30 days:
20 bbl. Apples at $4.05
150 bu. Potatoes at 76¢
Received cash of Wm. Marshall for invoice of the 11th, less 2%.
March 20. Sold R. O. Austin, on the terms, 2/10, n/30:
30 bbl. Salt at $2.20
90 bu. Potatoes at 78¢
Cash sales for the week, $51.35.
March 22. Received cash of E. C. Havens, on account, $200.
Sold E. C. Havens on the terms, 2/10, n/30:
150 bu. Potatoes at 78¢
15 bbl. Apples at $3.95
Sold Jas. Wilson on the terms, 2/10, n/30:
5 bbl. Sugar, 1490 lbs., at 6¼¢
15 bbl. Salt at $2.15

March 23. Received cash of E. J. Parks for invoice of the 13th, less discount.

Paid D. C. Pond cash, on account, $250.

Sold John Ford, on account, 10 days:

20 bbl. Apples at $3.90

115 bu. Potatoes at 79¢

March 24. The proprietor withdrew $25 for personal use.

Bought of D. E. Dobbs & Co., Chicago, on the terms, 2/10, n/30: 75 bbl. Apples at $3.20.

Paid J. C. Conder & Co. $200, on account.

March 25. Sold E. J. Parks, on the terms, 2/10, n/30:

25 bbl. Apples at $3.95

20 bbl. Salt at $2.05

Received of John Ford, cash, on account, $250.

Bought of M. C. Newton, Philadelphia, Pa., on the terms, 2/10, n/30: 25 bbl. Sweet Potatoes at $3.45.

March 26. Returned to D. E. Dobbs & Co., 5 bbl. Apples that were unsatisfactory, and received credit for them at $3.20.

Sold C. E. Lathrop on the terms, 2/10, n/30:

5 bbl. Sweet Potatoes at $4.10

150 bu. Potatoes at 81¢

March 27. Received cash of Geo. Harding on account, $150.

Received cash of C. E. Paul for his note and interest, due today.

Cash sales for the week, $51.35.

The proprietor withdrew $20 for personal use.

March 29. Received a 30-day note of John Ford, on account, $150.

Sold E. J. Parks, on the terms, 2/10, n/30:

15 bbl. Apples at $4.05

75 bu. Potatoes at 80¢

March 30. Received cash of R. O. Austin for invoice of the 20th, less discount.

March 31. Paid clerk's salary for the balance of the month, $18.

Cash sales for the last three days, $22.40.

CLOSING WORK

Balance the cash book.

Post from all the books of entry all entries that affect personal accounts, including the account of the proprietor.

How to Find Profit or Loss. No itemized statement of profits and losses can be made. The profit or loss may be found in total by making a statement of Assets and Liabilities. The net result of this statement is the net worth. The difference between the net worth and the

proprietor's net credit is the profit or the loss; a profit if the net worth is the larger; a loss, if the net credit is the larger. This is just the opposite of the method in double entry.

Statement of Assets and Liabilities. In making a statement of Assets and Liabilities, nothing but the personal accounts are found in the ledger. Notes Receivable may be obtained from the notes on hand, notes payable from the stub of the note book or from the journal entries, insurance unexpired from the insurance bill, and the other inventories in the usual way. The form of the statement is the same as that for double entry.

Problem. B. A. Kesten began business January 1 with a capital of $3000. March 1, he invested $1000 additional. April 15, he withdrew $250. June 1, he withdrew $300. On June 30, a statement of assets and liabilities showed a net worth of $3926.50.

The proprietor's net credit is $3450. The net worth, $3926.50, less the net credit, $3450, equals $476.50, the net profit. The net profit is entered in the books by a journal entry, as follows:

B. A. Kesten		Cr. $476.50
Net profit for the six months ending June 30, 19—		

Make a statement of assets and liabilities for this single entry set. Use the following inventories:

Merchandise Inventory, $1117.75
Expense, unexpired insurance, $22.67
Horse and wagon, at cost
Furniture and Fixtures, at cost

The notes receivable and notes payable must be obtained by reference to the journal entries and the entries in the cash book for the payment of notes receivable or notes payable.

Find the profit or loss on the month's business, and make an entry to give the proprietor credit for it.

Balance the proprietor's account. The other accounts may be balanced or not as the teacher instructs.

How to Change from Single to Double Entry. As a business increases in size and needs more detailed information in order to meet competition, double entry books become necessary. To change from single to double entry, a statement of Assets and Liabilities is made, and the net profit or net loss transferred to the proprietor's account. The entry to transfer should debit the assets under the proper headings, credit the outside liabilities under the proper headings, and credit the proprietor's account for the net worth.

If the same ledger is to be used, the customers', creditors', and proprietor's accounts should be checked and the other accounts should be opened up in the ledger and posted.

An entry to change from single entry to double entry would be made as follows, with the same ledger used:

Milwaukee, Wis., July 1, 19—

	The following entry is made to change the books from single to double entry, per statement of assets and liabilities, June 30, 19—					
	Horse and Wagon	Per inventory	450	—		
	Office Fixtures	Per inventory	75	—		
	Merchandise	Per inventory	1575	50		
	Notes Receivable	C. Dow's note	325	—		
	Interest	20 da. on above	1	08		
√	J. Paxton	Owes on account	317	20		
√	C. Landon	Owes on account	418	45		
√	H. Newton	Owes on account	115	90		
√	Cash	On hand	1873	90		
	To Notes Payable	Note favor N. Ex. Bk.			1000	—
	Interest	10 da. on above			1	67
√	J. Morton	Business owes him			880	—
√	J. Carr & Co.	Business owes them			437	50
√	M. Gray	Net worth			2832	86

Make the entry to change the books of Set X from single entry to double entry.

Post to the ledger all the impersonal accounts.

Take a trial balance of your ledger.

Memorandum Accounts. Sometimes firms that keep their books by single entry keep accounts with Merchandise, Expense, and a few others in order to have more detailed information about the business. These accounts are memorandum accounts only. They should not be used in making a statement of assets and liabilities nor in changing from single to double entry. They simply give additional information and are not a part of the single entry books as such. They show that single entry is inadequate for the business and that the books should be changed to double entry.

Exercise A. Charles Hallowell has been engaged in business and has kept his books by single entry. On December 31, his books showed the following accounts: J. Coats, Dr., $384.50; D. Jeston, Dr., $570; F. I. Fulton, Dr., $325; M. I. Goss, Cr., $275; H. A. Baker, Cr., $412; Cash $400.50. From other sources he obtained the following information: Merchandise inventory, $2175: furniture and fixtures, $250; K. E. Evans' note for $650, dated December 10, payable 60 days after date, with interest at 6%. He owes a note for $500, dated November 25, payable 90 days after date, with interest at 6%. On June 30 of the same year, his net worth was $3275.20. During the six months he withdrew $315.

a) Make a statement of assets and liabilities.
b) Find the profit or loss and make the entry for it.
c) Make the entry to change from single to double entry.

Exercise B. James Goldsmith has been keeping his account by single entry. On January 1 his net worth was $4329.80. During the year he withdrew $250. On December 31, his books showed the following balances: C. Ferris, Dr., $368.50; E. F. Owen, Dr., $736.75; Merchandise, Dr., $1247.25; Expense, Dr., $278.25; C. L. Purin, Cr., $1378.25; Cash, Dr., $1375.60; D. G. Cone, Cr., $489.60; D. E. Willis, Cr., $273.20. From other sources, the following information is obtained: Merchandise inventory, $1736.20; furniture and fixtures, $175.50; insurance unexpired, $37.80; delivery equipment, $936.50; S. E. Sanson's note for $650, at 60 days, dated December 30.

Disregard the discount on the note for the unexpired time.

a) Make a statement of assets and liabilities.
b) Find the profit or loss and make the entry for it.
c) Make the entry to change from single to double entry.

Exercise C. Open the following trading accounts in a manuscript ledger: Purchases, Freight In, Sales, and Merchandise Trading.

Enter the following transactions in the trading accounts in the ledger direct without first entering them in the books of entry: inventory of goods, January 1, 1916, $6736.25; inventory of goods, June 30, 1916, $5875.90; gross purchases, $12321.85; gross sales, $15736.80; returns and allowances to the business, $217.25; returns and allowances to customers, $186.30; paid for freight and drayage, $375.80, of which $98.75 was for freight and drayage on goods unsold; paid for packing boxes, $68.25; received a refund of $8.25 on a freight bill paid; paid wages of shipping clerk, $50; the proprietor took goods from stock for his personal use, $47.85; goods were shipped to be sold on commission, $525; goods were taken from stock for use in the business, $23.80.

a) Close the trading accounts, June 30, 1916.
b) Find the per cent of profit or loss on the sales.
c) Find the per cent of profit or loss on the total cost.

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